

The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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Editorial Comment

The Coming Annual Meeting

As announced in our June issue, the forty-first annual meeting of The Dominion Association of Chartered Accountants will be held in Toronto on 16th-18th August 1943, the Monday meetings being confined to the Council and Committees, so that Tuesday and Wednesday are mainly available for the general sessions. Two very timely technical subjects have been chosen by the Association's Executive and the Research Committee, for discussion on Wednesday. The tentative programme is printed on page 5 of this issue. The complete programme and other particulars will be mailed to each member late in July.

Owing to the circumstances of war, conventions can not be on as lavish a scale as formerly. Nevertheless it is hoped that everyone attending, including the ladies, will have an instructive and pleasant time. The spirit of the present war is not quite in accord with the "business as usual" slogan of the last war, but if we described it as "essential business as usual" we would not be far off the mark. And the field of accounting and auditing stands high in the rating of essentiality.

*Taxing
Ability
to Pay*

Some favourable comments have been received regarding the editorial which appeared in the May issue of THE CANADIAN CHARTERED ACCOUNTANT under the title of "The Changing Function of Income Tax". The main point of the editorial was that the income tax, after having been inaugurated as a levy to take a little money openly and fairly, had grown almost overnight to such proportions as to govern our productive conduct, and thereby had run into difficulties which had not been contemplated at its inception. Chief of these difficulties, of course, is the stifling effect of high rates on marginal effort, resulting in policies of caution rather than risk on the part of corporations, a considerable degree of idling on the part of high-earning individuals, and absentee-ism now in the industrial ranks. When the income tax took nothing from the industrial worker, and no more than ten or fifteen per cent from anyone, the productive effects were negligible.

The present state of the income tax, with its vast complexity, its claims and its counter-claims, its intermingling of payments past, present and future, as well as its injurious economic effects, is conclusive evidence of the need for reform. There are two obvious methods of approach. One would be a drive for simplicity—an effort to modify the exemptions and the confusion in respect to deductions at the source as related to final payments—so as to arrive at a form that would be easier to handle. Such a purely technical or accounting approach would be doomed to fail, because every exemption and counter-claim is there for a definite reason. For instance, in the matter of refundable tax, it would wreck the personal budgets of thousands of people if every one had to put up compulsory savings, without regard for their existing obligations on insurance policies and mortgages. The second obvious method would be to restore economic incentives by whittling down the giant to its former size, but this, by returning much spendable money from the government back to the people, would leave so many new problems that it would not be an answer at all.

For a really effective reform, it will be necessary for our socially minded governments, by whom the income tax has been cultivated to the point of diminishing return in

respect to revenue and also at some loss to the national income, to re-examine their objectives in the matter of production and distribution. In their earlier years, which were marked by poverty in the midst of plenty, there seemed to be a prime case for redistribution, without regard for the effects on the gross. Now it is realized that production is an equally worthy cause, and that it must be promoted by incentives. In other words, the taxation of ability to pay has limits, which appear to have been already passed. The very suggestion that gain or profit are needed to keep us from starvation is abhorrent to the orthodox socialist, but the vast numbers of industrial workers who have now joined with the higher paid classes in support of this principle can not be ignored in the political field. Herbert Morrison, prominent socialist member of the British cabinet, states that the three main principles in the newer socialist outlook are, the development of a spirit of effort, initiative and adventure, the replacement of fear by faith, and the abolition of restriction and monopoly in the building up of the nation's wealth. In the light of such principles, the income tax stands in need of revision, so that, instead of being a destructive economic force, it may be made, as far as possible, an agency for the encouragement of production and thrift.

*Confusion
in Holidays*

When a Royal Proclamation, issued in the King's name by Canadian officials, advised the people of Canada that the King's birthday was 14th December, but that for purposes of celebration it was to be on 2nd June, but, again, that this year it was not to be observed at all, we were reminded of several things. First, a tendency to subvert the sanctity of historic dates for the very mundane purpose of maintaining the national income; of course the royal birthday, by reason of the limitations of all human life, is the most "movable" of all our established feasts, and still languishes under the shadow of the great Victoria day. Second, is the tendency to confuse the public mind by regulations which abolish something almost as soon as it is created; in this instance, for example, the 2nd June was condemned from the start to be a mere mirage—a ghost which had never walked the earth. And third, it further

illustrates the extension of governmental power over things both hallowed and profane.

This particular proclamation reads in part: "Whereas Our birthday falling on the fourteenth day of December, it is thought fit to appoint Wednesday, the second day of June, in the year of Our Lord one thousand nine hundred and forty-three, as the day upon which Our Birthday is to be officially celebrated; and whereas owing to war conditions it is not expedient that Our said birthday be observed in Canada as a public holiday; now know ye that We do hereby proclaim and declare by this Our proclamation that Wednesday, the second day of June, is hereby fixed for the celebration in the year of Our Lord one thousand nine hundred and forty-three, of Our said birthday; and We do hereby further proclaim and declare that owing to war conditions it is not expedient that Our said birthday be observed in Canada as a public holiday."

This year the Dominion government ruled that Victoria day, the 24th May, should not be a public holiday, but many municipalities issued counter rulings, with the result that, while war production plants presumably carried on as usual, Dominion government offices and banks kept open in an atmosphere of municipal desolation. Again, it was announced that both our Dominion day and the United States independence day, by agreement between the two governments, were to be merged into a common "first Monday in July" and thereby to become just another Monday off; later came the information that the first of July was to stay put.

When we laboured six days a week, and went to church on the seventh, the half dozen public holidays of the year were welcome breaks, on which we could be reminded of what they stood for, and at the same time have firecrackers, or races, or a football game. Much of the difficulty has arisen from the shortening of the work week to five and one half and in some cases to five days, the establishment of summer vacations which have stretched from one week to two weeks or three weeks, and which now often start on Friday evening rather than at Saturday noon, and to prevalence of staff outings, community picnics and similar priorities on time in recent years. The result was that the short week, further interrupted by a mid-week holiday,

PROGRAMME FOR THE FORTY-FIRST ANNUAL MEETING

often became no week at all, and output was impaired. Now that everyone including the government realizes that the national income is what we all live on, a more serious view of the problem is taken. What we shall have to do, no doubt, is revise the calendar, so that every holiday will be both traditional and useful. And that is a job to tax the skill of any calendar reformer.

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

FORTY-FIRST ANNUAL MEETING TORONTO, 16th - 18th AUGUST 1943

Draft Programme

Monday, 16th August

- 10.00 A.M.—Meeting of Executive Committee
- 2.30 P.M.—Meeting of Council
- 7.30 P.M.—Meeting of Committee on Education and Examinations

Tuesday, 17th August

- 9.00 A.M.—Registration opens
- 10.00 A.M.—Meeting of Council (continued)
- 12.15 P.M.—Dominion President's Luncheon for Dominion Council
- 2.30 P.M.—General Session
 - Address of Welcome
 - President's Report
 - General Business
- 9.00 P.M.—Informal Reception
 - Members and their Ladies will be welcomed by the President.

Wednesday, 18th August

- 9.00 A.M.—Registration continued
- 9.30 A.M.—General Session (Government Cost Audits)
- 12.15 P.M.—Luncheon for Members, Ladies and Guests
- 2.30 P.M.—General Session (The T.2 Questionnaire with particular reference to the Auditor's Report)
- 3.30 P.M.—Ladies' Afternoon Tea
- 5.30 P.M.—Final Meeting of Council
- 8.00 P.M.—Dinner-dance for Members and their Ladies.
 - Dress informal.

Statutory Duties of Auditors

By K. LeM. Carter
Chartered Accountant

Toronto, Ont.

WITH the introduction of the audit sections to the English Companies Act in 1844, English limited liability companies were required to be audited. Prior thereto, auditors were concerned with the verification of trust funds and not to any extent with reporting of financial condition and earnings of corporations, and this law brought about certain duties which were later to become the most important audit functions. The employment of auditors at that time was designed firstly as a check on the honest stewardship of the directors so far as proper accounting for all receipts and disbursements is concerned, and, secondly, to obtain an independent opinion on the balance sheet.

Under the 1917 amendments to the Canadian Companies Act, Dominion companies were required to be audited and the present statutory form of report was incorporated into the Act. Section 120 requires that auditors shall report on the accounts examined by them and on every balance sheet laid before the company. The phraseology suggests the twofold purposes of an audit as above referred to (a check on the honest stewardship of the directors and an opinion as to the balance sheet). If the Act stipulated an audit for the purpose of confirming the balance sheet only, it would probably have stated that auditors must examine the accounts in order to report on the balance sheet. It should be noted that in the United States the purpose of auditors is quite different for generally they are appointed solely to give expert opinions as to financial statements.

An audit is generally defined as a verification of accounts by an examination of the supporting vouchers and documents. If, as I suggest, company auditors under the Dominion Act are required to fulfil a twofold purpose and examine the books as well as verify financial statements, the carrying out of a balance sheet audit cannot satisfy a statutory appointment. Furthermore a disclaimer such

as "we have examined the books of account, but have not conducted a detailed audit" can hardly restrict one's liability when appointed without restriction to satisfy section 120 of the Act.

Having been appointed to carry out the audit requirements of the statute, an auditor who accepts and carries out but part of his duties without the limitation being confirmed by the appointing shareholders can hardly escape responsibility for the part left undone even though he may report his omission. Hence it would seem important that a balance sheet audit should only be accepted if the appointing shareholders understand what they will receive. Then if it does not satisfy the requirements of the Act, the responsibility is probably the shareholders'.

The purposes of an audit being to verify the honesty of the directors' stewardship and to report on the balance sheet there still remains some doubt as to whether it includes protection against a petty theft of the client corporation's cashiers and bookkeepers. There have been many attempts with varying success to hold auditors responsible for such losses. No doubt this doubtful liability causes considerable waste of auditors' time and clients' money and achieves only limited success. Hence I submit that the elimination by statute of such a responsibility would increase the value of audit services.

In recent years audit reports have tended to change from the words "we have audited the books" to "we have examined the books". Perhaps the purpose of this was to bring reports closer into line with the words of section 120 and to better inform the public as to the limitations of the services rendered. I believe that many auditors felt that an audit of the books was a more complete verification than an examination, but in all events I think it should be clearly borne in mind that whichever word is used there can be no implication that we have examined the books only for the purpose of verifying the statements.

Suggested Form of Report

Now as to the present form of audit report as incorporated into the Companies Act, I submit that it is unnecessarily verbose, to some extent inaccurate and incomplete. The following is, I believe, much neater and does not appear to increase an auditor's liability.

"We have audited the books of the company for the year ended In our opinion the accompanying financial statements fairly present the financial position of the company as at . . . and the results of its operations for the year ended on that date."

There has been omitted "we have obtained all the information and explanations which we have required". This statement is only of interest in the negative and its annual repetition has so vague a purpose that I suggest it has no place in this report. If an auditor failed to obtain all he required, he would most certainly report it irrespective of this phrase.

Also omitted are "according to the best of our information and the explanations given to us and as shown by the books of the company", which were apparently intended as qualifying words when it was the custom to furnish a certificate rather than the present practice of giving an opinion. I have recently been informed that the United States Securities and Exchange Commission will not accept a report with their inclusion. Presumably that body feels that the words might relieve an auditor from his just responsibility although it is difficult to see how they could increase or reduce it.

"According to the best of our information and the explanations given to us" appears to mean that an auditor disclaims responsibility for all those matters that did not come to his attention. If he wishes this doubtful protection, the letters "E." and "O.E." would be much neater and more useful for their meaning is clearer. If the words of this present form have force, it would seem that the profession is being very wasteful in seeking out information when, without further enquiry, it might perfectly well base opinions on the information that is presented by clients. Naturally it is now recognized that auditors assume the usual responsibilities of experts to fulfil their assignments with reasonable skill and diligence notwithstanding this phrase.

It has been said that the words "and as shown by the books of the company" are not intended to restrict an auditor's task to comparing the statements with the books, but rather to protect him against responsibility for conditions not disclosed by the books. If auditors are not required to

go beyond a company's books, there is a lot of time presently being wasted. At one time I believed these words meant "and *are* as shown by the books of the company". Perhaps there is some point to reporting that the statements are in agreement with the books, but the annual repetition of this fact makes for dull reading when it is only valuable in the negative. In any event the words used are ambiguous.

In the above suggested form of report there has been substituted "fairly present the position of the company" for "exhibit a true and correct view of the state of the company's affairs". The latter in specifying "true and correct" suggests exact mathematical accuracy which, of course, allows no leeway for the valuation of receivables and inventories or for the amortization of fixed assets. It is readily admitted that a balance sheet cannot be exact, but merely the best possible estimate. And of course, we all know that a balance sheet does not deal with the whole "state of the company's affairs", but only with the financial condition.

By the omission of any reference to the statements of income and expenditure, the statutory report is amazingly incomplete. Two matters of primary importance to shareholders are, probably in this order, results of operations for the year and the financial condition at the end of the year. Auditors, recognizing responsibility for income statements, extend their verification to them and are equally interested in the accuracy of income statements and balance sheets. Reporting on income statements would therefore impose no additional duties or liabilities on auditors and would better inform shareholders as to the nature of an audit.

In order to conform to the requirements of the present Companies Act it is probably now necessary for the auditor to state that he has received all the information and explanations he has required and in fact to use all of the words in the Act, even though they may appear to be ambiguous or meaningless, for the omission of some of these words might imply a change in technique; but there seems to be no reason why some remark as to the income account should not be added.

The amendment of the statutory duties of auditors would appear to be long overdue, for audit methods have considerably progressed without suitable correction having

been made to the statutes. The words in which auditors report on their work are of utmost importance and if, as I submit, these words are obsolete correction cannot be too quickly achieved.

Keep Those Small Bonds Sold!

By E. C. Leetham

Chartered Accountant

Montreal, P.Q.

ONE of the gravest financial problems facing the Canadian government today is how to induce holders of small denomination victory bonds and war savings certificates to retain their investments for the duration.

Of the Third Victory Loan 2,040,000 individuals bought bonds. This constitutes popular support of government in financing all-out effort. Sound finance demands the continuing, increasing support of small investors. Lasting benefit requires that small bonds once sold be retained by the original investor.

There was \$23,800,000 par value of bonds cashed in through the chartered banks by holders of small bonds during the last ten months of 1942 and \$23,700,000 of war savings certificates have been redeemed—total \$57,500,000.

This condition is serious, but it can be overcome by the adoption of a redemption-selection plan, by premium redemption every six months of: 2,500 \$50 bonds at \$200 each; and 500 \$100 bonds at \$400 each.

It is intended that the privilege of "selection" be extended only to employees who bought bonds through their company, also employees of the federal, provincial and municipal governments, educational boards and members of the armed forces. It would apply to bonds purchased in the past and to new issues of bonds.

The proposed redemption-selection plan, although providing additional incentive to retain bonds, is not a lottery. The greatest advantage any investor could receive would be three for one. It is somewhat similar to a corporation redeeming bonds at a premium over face value through a drawing.

The proposed redemption-selection plan recognizes the

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fact that many bonds are being redeemed and turns this liability into an asset by redeeming by selection a number of \$50 and \$100 bonds every six months, cashing such bonds at fixed premium. Example:

\$50 bond redeemed for \$200: Extra cost for premium \$150.

\$100 bond redeemed for \$400: Extra cost for premium \$300.

Each \$50 or \$100 bond would be redeemed in cash, the premium of \$150 or \$300 to be paid by issuance of additional victory bonds. Such new bonds would participate in the next selection and, incidentally, lessen the cash outlay for the government.

Total annual cost of the plan covering small bonds and war savings certificates would be \$2,000,000 against a possible \$36,000,000 cost of redemptions at present rate, thus providing an extra \$34,000,000 as available to government for the war effort. Selections would be made every six months, say 1st June and 1st December, for a period of from five to ten years as desired by government.

Below is an illustration of the cost of the selection for a year:

<i>First Six Months</i>	<i>Premium</i>	<i>Redemption</i>	<i>Total Cost</i>
2,500 \$50 bonds for \$200	\$375,000	\$125,000	\$500,000
500 \$100 bonds for \$400	150,000	50,000	200,000
Total Premium	\$525,000	\$175,000	\$700,000
<i>Second Six Months</i>			
2,500 \$50 bonds for \$200	\$375,000	\$125,000	\$500,000
500 \$100 bonds for \$400	150,000	50,000	200,000
Total Premium	\$525,000	\$175,000	\$700,000
Total for one year	\$1,050,000	\$350,000	\$1,400,000

It is common knowledge that government and the national war finance committee oppose any method in connection with federal finance that would have a lottery flavour. This is natural because Canadian victory bonds are:

1. The finest and safest security in the world that can be held by Canadian investors.

2. Backed by the total assets of a rich country with unlimited natural resources, as yet only partially developed, such as waterpower, forest products, minerals, etc.

3. An obligation of a progressive country which is paying the greater portion of war costs out of income of its citizens, thereby keeping debt down to a minimum.

Canada, with her allies, is engaged in a total war. The government urgently needs every dollar that each citizen can invest. Bonds subscribed to and paid for by patriotic citizens are, of course, their property and represent a "nest egg" which can at all times be cashed promptly for use in emergency. But holders of bonds should avail themselves of this privilege of realizing on their bonds only as a last resort.

The bonds represent the highest collateral at the banks, can be loaned against up to ninety per cent of face value to provide temporary funds for emergency. Borrowing against bonds for an emergency is the patriotic thing to do, rather than selling the bond. The loan can be paid back over a period of time and the bond is still retained by the original investor.

Advantages of Proposed Redemption-Selection Plan

1. Aid in keeping small bonds in holder's hands;
2. With "cashing-in" of bonds curbed, spending power of the individual would, naturally, be reduced;
3. This would help to hold down the cost of living;
4. A great many man-hours would be saved for banks and government in handling 400,000 or more cancelled bonds each year;
5. Encourage larger subscriptions to forthcoming loans which would be retained, thus more than offset cost of premiums;
6. Government, by paying a premium to a few holders, would benefit by many millions of dollars of individual bonds being retained. This would result in employees holding "nest eggs" to tide them over any hard-times in the post-war.

The redemption-selection plan is submitted as an idea for the national war finance committee, and for the following possible methods of use:

(a) As a broad national activity that might be embarked upon by the Canadian Bankers' Association for chartered banks—also the life insurance institutions;

(b) By large and small communities throughout the country, under direction of representative and patriotic citizens;

(c) By employers of people, particularly large employers who develop and maintain their own employee-subscriber plans.

Failing any direct participation by the national war finance committee, an independent national committee could be created by private interests for the purpose of informing and aiding those who might be desirous of setting up local committees.

Necessity for Redemption-Selection Plan

Accurate figures are available as to subscriptions to the First and Second Victory Loans and the numbers of small bonds that have been redeemed. It is noticed that cashing-in of small bonds is increasing at a progressively rapid rate.

The First Victory Loan was launched in June 1941. Figures relative to bonds cashed in are only available from March 1942. The Second Victory Loan took place in February 1942, and figures relating to that loan are available from March 1942.

The table below shows the number of \$50 and \$100 bonds of the First and Second Victory Loans that were cashed in through the banks during the last ten months of 1942, and does not include bonds sold through investment houses or other agencies.

Schedule of \$50 and \$100 Bonds Redeemed

	First Victory Loan		Second Victory Loan	
	Number of Bonds		Number of Bonds	
1942	\$50	\$100	\$50	\$100
March-May	23,003	9,985	27,891	12,148
June-August	25,609	11,612	86,916	26,353
September-December	19,176	9,145	186,617	38,787
Total Bonds	67,788	30,742	301,424	77,288
Par Value	\$3,389,400	\$3,074,200	\$15,071,200	\$7,728,800

Comparison showing the original issue of \$50 and \$100 bonds with the respective sale of such bonds back to the chartered banks for the First and Second Victory Loans is as follows:

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	First Victory Loan			Second Victory Loan		
	Subscribed	Redeemed	Per Cent	Subscribed	Redeemed	Per Cent
\$50 bonds	..545,151	67,788	12.44	1,120,625	301,424	26.91
\$100 bonds	..547,404	30,742	5.62	746,664	77,288	10.34
Total Bonds	1,092,555	98,530	9.01	1,867,289	378,712	20.27
Par Value	\$81,997,950	\$6,463,600		\$130,697,650	\$23,800,000	

Dividing the number of bonds redeemed into the total par value gives an average per bond of:

First Victory Loan \$65.60 Second Victory Loan \$62.50

A glance at the results shows that cashing-in of bonds is proceeding at an accelerated rate, viz., 9% from the First Victory Loan and over double that amount from the Second Victory Loan, or 20%. In the Third Victory Loan there were 2,040,000 subscribers, and if bonds were cashed from this loan, even at the rate of 20%, although this is probably conservative, 400,000 individual bonds would be cashed in by this summer, at an average of \$62.50 per bond this would amount to \$25,000,000.

There were 78,000 individual bonds from the Second Victory Loan cashed in the month of October 1942, alone, or a rate of more than 3,000 bonds every working day.

Now, apparently, bonds are sold by holders for the following reasons:

1. Urgent Personal Need—Personal or household emergencies that imperatively require quick cash.

2. Oversale at Time of Issue—Social pressure, emotionalism, desire to participate beyond means, too aggressive canvassing.

3. Changing Employment—Shifts of employees in industry are very numerous and increasing. Employee leaving employer collects what he has paid in on purchase scheme through payroll deductions; employer sells bond to clear his loan with bank.

4. Ignorance or Indifference—Sudden urge to spend on consumer goods, luxuries, etc. These people clearly do not understand reason for bonds or urgency of government need for cash retained in investment.

Method of Operation of Redemption-Selection Plan

In the operation of the plan, it is necessary to ascertain the employee-holders of all bonds purchased and retained by them from previous loans. This could be accomplished

by allowing any employee who subscribes to a bond in subsequent Victory Loan issues to have the privilege of converting any bonds previously purchased through his employer to bonds of the new issue so that all his bonds might participate in the selection. In future loans, government could have the bonds designated "Employee Bonds" which would be issued to the subscribing employees when bonds were paid up. Any bonds from previous issues would be included when converted. Under the above scheme, by converting outstanding employees' bonds from previous issues, the government could establish a record of all the bond numbers.

The selection could be made by some outstanding person or some convalescent wounded soldier and given wide publicity through the press and over the radio. Contests could be held in public and private schools on the subject "Why we should buy and hold victory bonds". Suitable prizes of bonds could be awarded for the best efforts. A selected number of the winners of such essays could be given free transportation and expenses to several central points to participate in a broadcast in connection with the Victory Loan immediately following the selection of the individual bonds.

The results of the selection, or a portion of it, say the first ten winners selected, could be broadcast over a nationwide hook-up. Such a broadcast with the employees' names, addresses, places of business, etc., would stimulate other employees listening in to continue to hold their bonds or to buy more in the next issue. The winners (optional) could be asked to participate as guests in one of the local or national bond drive broadcasts, and if from a small town, his expenses could be paid to the point from which such a broadcast is made. Local papers would be asked to "play-up" the winner, having his picture in the paper, where he works, his home life, etc., also a statement from him as to what he thinks about holding on to victory bonds.

War Savings Certificates

The redemption-selection plan for small bonds could be equally adapted to war savings certificates. This would broaden the appeal to include persons who are unable to buy a \$50 bond, but who are contributing to the extent

of their means by purchasing war savings certificates from time to time. In this class would be included school children, persons living on pensions or investments, soldiers' wives, etc. This plan would stimulate the sale of stamps and encourage their prompt conversion into war savings certificates.

Up to January 1943 the Canadian public had invested \$198,078,260 in war savings certificates and to the same date the national war savings committee had received applications for redemption of certificates to a purchase value of \$23,711,316, or on the basis of a \$5 certificate this would amount to 6,000,000 individual certificates, calculating the amount paid back on the basis of \$4 for each certificate.

Certificates selected could be cashed in the same ratio as outlined for small bonds:

Certificates	Redemption Value	Value	Total
\$ 5	\$ 5 cash and three new \$ 5 certificates	\$4 each	\$17.00
\$10	\$10 cash and three new \$10 certificates	\$8 each	\$34.00

This same ratio would apply to certificates up to \$500 face value. The government already has the names and addresses of all holders of war savings certificates. All holders of war savings certificates would be included in the selection plan regardless of whether they were employees or otherwise, as no separation is possible.

Recommendation is that selection for war savings certificates be made every six months at different times than selection for victory loan bonds, say, 1st March and 1st August, to spread public interest over the whole year.

The publicity that could be given to the war savings certificates selection would be similar to that set forth for the bond selection, such as school essays, radio broadcasts, press publicity or some winners with photographs, etc.

The cost of selection for war savings certificates for selection twice a year would be approximately as follows:

First Six Months		Premium Cost of New Certificates at 80% of Face Value	Redemption Cost Cash at Par	Total Cost
Number	Certificates			
8,000	\$ 5	\$ 96,000	\$ 40,000	\$136,000
2,000	10	48,000	20,000	68,000
400	25	24,000	10,000	34,000
200	50	24,000	10,000	34,000
50	100	12,000	5,000	17,000
10	500	12,000	5,000	17,000
Total Six Months		\$216,000	\$ 90,000	\$306,000

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<i>Second Six Months</i>				
8,000	\$ 5	\$ 96,000	\$ 40,000	\$136,000
2,000	10	48,000	20,000	68,000
400	25	24,000	10,000	34,000
200	50	24,000	10,000	34,000
50	100	12,000	5,000	17,000
10	500	12,000	5,000	17,000
Total Six Months		\$216,000	\$ 90,000	\$306,000
Total Twelve Months ..		\$432,000	\$180,000	\$612,000
Total yearly cost, premium and redemption \$612,000				

Company Sponsored Redemption-Selection Plan

All company officials are vitally interested in having a 100% participation by their employees in each victory loan. They should welcome a plan under which employees would retain their bonds. They could run the plan themselves, example:

A firm with 4,500 employees could redeem bonds on the three to one basis, whereby the amount to be expended by the firm in bonds would be:

<i>Par Value</i>	<i>Would Receive</i>	<i>Cost</i>
60 holders of \$ 50 bonds	3 new bonds	\$ 9,000
15 holders of \$100 bonds	3 new bonds	\$ 4,500
Total Cost		\$13,500

This works out on an average of \$3.00 per employee. Companies having fewer employees could work their plan on the same average cost per employee. Provision could be made by the government to allow the amount paid out under such a plan to be treated as an expense under the income and excess profits tax acts.

Not only would this plan benefit the government, but as company officials would know when an employee sold his bond, the employee would think twice about selling for frivolous reasons. Some employees buy bonds because they feel their position is more secure if they subscribe. Some feel that employers look with favour upon employees who save. An employee who cannot save his own money probably does not have the ability to save the funds of his employer.

INCOME WAR TAX ACT AMENDMENTS

7 George VI, 1943

CHAPTER 14

An Act to amend the Income War Tax Act.

[assented to 20th May 1943]

R.S., c. 97;
1928, cc. 12,
30;
1930, c. 24;
1931, c. 35;
1932, cc. 43,
44;
1932-33, cc. 14,
15, 41;
1934, cc. 19,
55;
1935, cc. 22,
40;
1936, cc. 6, 38;
1938, c. 48;
1939 (1st
Sess.) c. 46;
1939 (2nd
Sess.) c. 46;
1940, c. 34;
1940-41, c. 18;
1942-43, c. 28.

HIS MAJESTY, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Paragraph (g) of subsection one of section three of the *Income War Tax Act*, chapter ninety-seven of the Revised Statutes of Canada, 1927, as enacted by section three of chapter forty-eight of the statutes of 1938, is amended by adding thereto the following proviso:—

Annuities.

"Provided, however, that annuity payments or other annual payments received under the provisions of any will or trust which became effective prior to the first day of January, 1944, shall be exempt to the extent of the amount paid out of the corpus of the estate or trust but not exceeding fifteen hundred dollars in any year."

2. The said section three is further amended by adding thereto the following subsections:—

Per diem
and living
allowances.

"(4) Any payment made to any person in connection with any duty, office or employment, whether as allowances on a per diem or other periodic basis, living allowances or expenses, or otherwise (except travelling or other allowances expressly fixed by and in any Act of the Parliament of Canada and travelling expenses paid to any member of the Canadian Naval, Military and Air Forces in the Canadian Active Service Forces) shall be salary of such person and taxable as income for the purposes of this Act: Provided, however, that living allowances paid to persons who are serving outside of Canada but are maintaining a self-contained domestic establishment in Canada and who are either employees of the Government of Canada or members of the Canadian Naval, Military or Air Forces in the Canadian Active Service Forces shall not be deemed to be taxable income up to such an amount as may be determined by the Minister in his discretion.

Proviso.

Marriage and
dependents'
allowances.

"(5) Any payment (other than supplementary grants paid by the dependents' board of trustees) made in respect of the services of any member of the Canadian Naval, Military or Air Forces in the Canadian Active Service Forces to the wife or to any dependent of such member shall for the purposes of this Act be income of such member."

3. (1) Paragraph (n) of section four of the said Act, as enacted by section four of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

Dividends
received
by one
corporation
from another

"(n) Dividends paid to an incorporated company by a company incorporated in Canada, the profits of which have been taxed under this Act, except as hereinafter provided by sections 19, 22A and 32A."

(2) Paragraph (t) of section four of the said Act, as enacted by section nine of chapter thirty-four of the statutes of 1940, is repealed and the following paragraph substituted therefor:—

INCOME WAR TAX ACT AMENDMENTS

"(t) The service pay and allowances of—

Service
pay and
allowances.

(i) members of the Canadian Naval, Military and Air Forces while in the Canadian Active Service Forces and overseas on the strength of an Overseas Unit outside of the Western Hemisphere, and

(ii) members of the said Forces while on active service in Canada, or anywhere in the Western Hemisphere, whose duties are of such a character as are required normally to be performed afloat or in aircraft, and

(iii) members of the said Forces whose income from such service pay and allowances (excluding subsistence allowances up to \$1.70 per day and marriage and dependents' allowances and supplementary grants paid by the dependents' board of trustees) is paid at the rate of less than \$1,600.00 per annum, except that in the case of members of the Women's Royal Canadian Naval Service, Canadian Women's Army Corps and the Royal Canadian Air Force (Women's Division) the figure of \$1,200.00 shall be used in lieu of the figure of \$1,600.00 hereinbefore mentioned."

4. Section four of the said Act is amended by adding thereto the following paragraphs:—

"(v) The service pay and allowances received in respect of the first six months' service after his return to Canada by any member of the Canadian Naval, Military or Air Forces who is in the Canadian Active Service Forces and who has been overseas on the strength of an Overseas Unit outside of the Western Hemisphere: Provided, however, that in the case of a member of the said Forces who has not been on the strength of an Overseas Unit outside of the Western Hemisphere for a period of at least six months, the period of exemption granted hereunder shall not exceed the length of the period which has been served by him on the strength of an Overseas Unit outside of the Western Hemisphere: Provided further that the exemption shall not in any case exceed one period of six months for any such service or services outside of the Western Hemisphere.

Service
pay and
allowances.

Proviso.

Proviso.

(w) Any amount received by an officer or man of the merchant marine paid as bona fide war risk bonus in accordance with the usage of the merchant marine in respect of service in a zone recognized by the Governor-in-Council as a war risk zone, but not exceeding the amount approved by the National War Labour Board or other competent authority for a similar officer or man employed by a Canadian employer, and the value of board or lodging on shipboard received by an officer or man while performing services in respect of which such war risk bonus is payable.

Merchant
marine.

(x) One-third of the remuneration paid to the civilian officers or employees of the Royal Air Force Transport Command whose duties are of such a character as are required normally to be performed in aircraft."

R.A.F.
Transport
Command.

5. (1) Paragraph (p) of subsection one of section five of the said Act, as enacted by subsection seven of section five of chapter twenty-eight of the statutes of 1942-43 is repealed and the following paragraph substituted therefor:—

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Business losses in preceding year.

"(p) losses sustained in the process of earning income during the year last preceding the taxation year by a person carrying on the same business in both of such years, if in the calculation of such losses, no account is taken of any outlay, loss or replacement of capital or any payment on account of capital or any depreciation, depletion or obsolescence, or of any disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income, except such amount for depreciation and depletion as the Minister may allow."

(2) Paragraph (q) of subsection one of section five of the said Act, as enacted by subsection seven of section five of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

Active service military subsistence allowances.

"(q) subsistence allowances of members of the Canadian Naval, Military or Air Forces while in the Canadian Active Service Forces, except to the extent that any such subsistence allowance exceeds \$1.70 per day."

6. Subsection one of the said section five is further amended by adding thereto the following paragraphs:—

Farm losses.

(r) losses sustained in the process of earning income from the operation of any farm during the two years last preceding the taxation year by a person whose chief occupation is that of farming;

Mining company municipal taxes.

"(s) taxes payable and paid by a mining company to a municipality, pursuant to the provisions of subsections six, nine and eleven of section thirty-nine of the *Assessment Act* (Ontario) R.S.O. 1937, chapter 272, as amended and in force on the second day of March, 1943: Provided that the Minister is satisfied that in assessing the said taxes the taxes payable by the said mining company under the *Income War Tax Act* and *The Excess Profits Tax Act, 1940*, are not allowed as deductions."

Proviso.

7. Paragraph (n) of subsection one of section six of the said Act, as enacted by section sixteen of chapter thirty-four of the statutes of 1940 is amended by adding thereto the following:—

Proviso.

"Provided, however, that the Minister shall not allow a deduction in respect of depreciation of assets owned by an incorporated taxpayer from the income of the said taxpayer if he is satisfied that the said taxpayer directly or indirectly had or has a controlling interest in a company or companies previously the owner or owners of the said assets or that the said previous owner (which term shall include a series of owners) directly or indirectly had or has a controlling interest in the said taxpayer or that the said taxpayer and the previous owner were or are directly or indirectly subject to the same controlling interest and that the aggregate amount of deductions which have been allowed to the said taxpayer and/or the said previous owner in respect of the depreciation of such assets is equal to or greater than the cost of the said assets to the said previous owner or to the first of the previous owners where more than one:

Proviso.

Provided further that in the case of the sale of immovable assets (not including machinery or equipment) in respect of which special depreciation has been allowed, the Minister may revise the assessments of the vendor for the years when the special depreciation was allowed, by disallowing as a deduction a pro rata portion of the

INCOME WAR TAX ACT AMENDMENTS

special depreciation allowed to the taxpayer in each of the said years, to the extent of the excess of the selling price over the depreciated cost of the said assets, less the amount of depreciation normally allowed on the said assets, and less the excess, if any, of the selling price over the undepreciated cost of the said assets:

And provided further that as used in the next preceding proviso the term "special depreciation" shall mean deductions in respect of extra depreciation and other special depreciation or allowances in lieu of depreciation which are in excess of depreciation normally allowed, and the term "depreciated cost" shall mean cost to the taxpayer less depreciation allowed together with special depreciation." Proviso.

8. Paragraph (b) of subsection one of section 7A of the said Act, as enacted by subsection two of section eight of chapter twenty-eight of the statutes of 1942-43, is amended by adding immediately after subparagraph (ii) thereof the following subparagraph:—

"(iii) Dominion of Canada Government Annuities on the lives of the taxpayer, his spouse and his dependents;" Government annuities.

9. (1) Paragraph (d) of subsection one of section 7A of the said Act, as enacted by subsection two of section eight of chapter twenty-eight of the statutes of 1942-43, is repealed and the following paragraph substituted therefor:—

"(d) principal payments on a mortgage or agreement of sale on or with respect to one residential property of the taxpayer or the taxpayer's spouse, provided that such mortgage or agreement of sale was registered or in effect prior to the twenty-third day of June, one thousand nine hundred and forty-two, or if not so registered, was to the satisfaction of the Minister in effect as an enforceable obligation of the taxpayer or the taxpayer's spouse prior to the said date." Principal payments on mortgage or agreement for sale.

(2) The said section 7A is further amended by adding thereto the following subsection:—

"(5) The provisions of this section shall not apply to estates or trusts taxable under the provisions of subsections two or four of section eleven of this Act." Estates or trusts.

10. Subsection five of section eight of the said Act, as enacted by section 10A of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

"(5) A taxpayer shall be entitled to deduct from the sum total of the income tax payable by him under this Act and the tax payable under *The Excess Profits Tax Act, 1940*, an amount equal to forty per centum of the contributions made by him during the year one thousand nine hundred and forty-three to associations, syndicates or mining partnerships registered or otherwise recognized under the laws of any province of Canada and organized for the purpose of prospecting in Canada for base metals or strategic minerals, not exceeding five hundred dollars in the case of any one such association, syndicate or mining partnership, and not exceeding five thousand dollars in respect of the aggregate of the said contributions made by him to all such associations, syndicates or mining partnerships: Contributions for prospecting. 1940, c. 32.

Provided, however, that in the case of a contribution by a corporation substantially all of whose income is subject to depletion Proviso.

THE CANADIAN CHARTERED ACCOUNTANT

calculated on a basis of a percentage of net profits, the deduction to be allowed hereunder shall be reduced by the same percentage:

proviso.

Provided further that no such deduction shall be allowed unless the association, syndicate or mining partnership files certified statements of expenditures and satisfies the Minister that it has been actively engaged in prospecting in Canada for base metals or strategic minerals by means of qualified persons during the year one thousand nine hundred and forty-three and that it has carried out the purpose for which it was formed: and

proviso.

Provided further that if the said contributions have not been expended within the said period the deduction to be taken hereunder shall be that proportion only of the contribution which is equal to the proportion which the moneys actually expended bears to the total contributions to such association, syndicate or mining partnership."

11. The said section eight is further amended by adding thereto the following subsections:—

**Expenditures
on dry
oil wells.**

1940, c. 32.

"(6) A corporation whose principal business is the production and/or refining and/or marketing of petroleum and/or petroleum products shall be entitled in respect of the year of expenditure to deduct from the sum total of the income tax payable by it under this Act and the tax payable under *The Excess Profits Tax Act, 1940*, (and if such sum total of tax is not sufficient to provide therefor, to deduct any balance from the tax of subsequent years) forty per centum of

(a) all drilling costs incurred by it directly or indirectly on oil wells spudded in during the period from the first day of January, 1943, to the thirty-first day of March, 1945, and abandoned within six months after completion of such drilling; and

(b) all exploration costs, including all general geological and geophysical expenses incurred by it;

provided, however, that in the case of a corporation substantially all of whose income is subject to depletion under the provisions of this Act, the deduction to be allowed hereunder shall be twenty-six and two-thirds per centum of such costs instead of forty per centum.

**Exploration
and drilling
expenses
for oil.**

"(7) A corporation, association, syndicate or an exploration partnership formed for the purpose of exploring and drilling for oil shall be entitled to deduct from the sum total of the income tax payable by it under this Act and the tax payable under *The Excess Profits Tax Act, 1940*, twenty-six and two-thirds per centum of exploration and drilling expenses incurred during the period from the first day of January, 1943, to the thirty-first day of March, 1945; provided, however, that where the tax in respect of the year of expenditure is not sufficient to permit the full amount of the deduction, the balance may be deducted in any subsequent year whether the income taxable in any subsequent year arose from the well in respect of which the expenses were incurred or from any well subsequently found by such corporation, association, syndicate or exploration partnership.

**Exploration
and drilling
expenses for
natural gas.**

"(8) A corporation, association, syndicate or an exploration partnership formed for the purpose of exploring and drilling for natural gas shall be entitled to deduct from the sum total of the income tax payable by it under this Act and the tax payable under *The Excess Profits Tax Act, 1940*, thirty per centum of exploration and drilling expenses incurred by it during the period from the first day of January, 1943, to the thirty-first day of March, 1945.

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"(9) A corporation whose chief business is that of mining or exploring for metalliferous and strategic minerals shall be entitled to deduct from the sum total of the income tax payable by it under this Act and the tax payable under *The Excess Profits Tax Act, 1940*, twenty-six and two-thirds per centum of all prospecting, exploration and development expenses incurred by it in searching for base metals and strategic minerals during the period from the first day of January, 1943, to the thirty-first day of March, 1945: Provided, however, that such deduction must be taken against the said taxes payable in respect of the year or fiscal period in which the said expenses were actually incurred:

Expenses of searching for base metals and strategic minerals.

Proviso.

Provided further that no such deduction shall be allowed unless the corporation files certified statements of expenditures and satisfies the Minister that it has been actively engaged in prospecting and exploring in Canada for base metals or strategic minerals by means of qualified persons and has incurred the said expenditures for such purposes."

Proviso.

12. Subsection one of section nine of the said Act, as enacted by section twelve of chapter twenty-eight of the statutes of 1942-43, is amended by inserting immediately after paragraph (f) thereof the following paragraphs:—

"(g) who, whether single or married, is an employee of a person resident or carrying on business in Canada and whose services were engaged in Canada and who has been sent outside of Canada temporarily to perform services on behalf of such employer;

Employees temporarily outside of Canada.

"(h) who is a member of the Canadian Naval, Military or Air Forces in the Canadian Active Service Forces in the Western Hemisphere outside of Canada;"

Certain members of the Canadian Active Service Forces.

13. Section 9A of the said Act, as enacted severally by chapter forty-four of the statutes of 1932, chapter fifteen of the statutes of 1932-33, chapter twenty-two of the statutes of 1935 and chapter six of the statutes of 1936, is repealed and the following substituted therefor:—

"9A. (1) In lieu of the tax on incomes of the year 1942 which but for the provisions of this section would be levied under this Act (except section 9B, subsection one of section twenty-seven and section eighty-eight thereof), the amount of tax which shall be levied in respect of incomes of the year 1942 shall be

1942 individual reduced tax liability.

(a) half of that portion of the total tax (including the amount refundable) leviable but for the provisions of this section, which bears the same ratio to the said total tax as the earned income plus any investment income not in excess of three thousand dollars (\$3,000), of the taxpayer, bears to his total income; and

(b) half of that portion of the total tax (including the amount refundable) leviable but for the provisions of this section, which bears the same ratio to the said total tax as the amount of the taxpayer's investment income in excess of three thousand dollars (\$3,000) bears to his total income, provided, however, that the other half of the said portion (less the refundable amount included therein) of the said total tax shall be paid by the executors, administrators or other legal representatives of the tax-

THE CANADIAN CHARTERED ACCOUNTANT

payer upon the death of the taxpayer, except to the extent that the taxpayer may elect to pay and does pay before death and on or before the thirtieth day of April, 1944, the discounted value of the said other half (less the refundable amount included therein) of the said total tax calculated at a discount rate of 2% per annum for the period of normal expectation of life of a person of the age of the taxpayer as shown by mortality tables approved by the Minister;

and the amount of tax deducted at the source or otherwise paid with respect to the income of the taxpayer during the year 1942 pursuant to sections 91 and 92 of this Act and the amount of tax paid with respect to the income of the taxpayer during the year 1942 by way of the quarterly instalment due on or before the fifteenth day of October, 1942, and the quarterly instalment due on or before the fifteenth day of January, 1943, pursuant to section 48 of this Act shall be credited against the tax leviable under this section.

Simplified
tax
calculation
for 1942
for certain
taxpayers.

(2) In respect of the 1942 taxation period only, every taxpayer, (except proprietors and partners in any manufacturing, trading or merchandising business) in receipt of an income not exceeding three thousand dollars from all sources included in which investment income may not exceed fifteen hundred dollars, shall, notwithstanding the provisions of subsection one of section nine of this Act relating to the First Schedule to this Act, be subject to the appropriate amount of income tax set forth in a table to be approved by the Governor in Council, provided that such table shall specify the tax payable and the maximum refundable portion of the tax in respect of incomes falling within ranges of not more than ten dollars and the amount of tax payable on incomes within each such range shall be that amount of tax in dollars (excluding the cents) lying approximately midway between the amounts of the tax payable on the highest and the lowest incomes within such range, calculated in accordance with the rules set forth in paragraph A of the First Schedule to this Act and reduced by one-half:

Proviso.

Provided further that the provisions of this subsection shall not apply to any member of the Canadian Naval, Military or Air Forces who is entitled to have his tax calculated in accordance with Rule 2 of section three of paragraph A of the First Schedule to this Act.

Subsequent
years.

"(3) In respect of the 1943 taxation period and any subsequent period, the Governor in Council may approve a Table of Taxes in conformity with the provisions of subsection two hereof having regard to the prevailing rates in force in the taxation period in respect of which the said Table is to be applicable.

Exceptions.

"(4) The provisions of this section shall not apply to

(a) a corporation, or any person taxable at the rates prescribed for corporations, or

(b) a trustee or executor taxable in respect of income under the provisions of subsections two or four of section eleven of this Act."

14. Subsections seven and nine of section 9B of the said Act, as enacted by subsection two of section thirteen of chapter twenty-eight of the statutes of 1942-43, are repealed and the following substituted therefor:—

INCOME WAR TAX ACT AMENDMENTS

"(7) For the purposes of this section the Minister shall have full power to determine the persons who are deemed to be residents of Canada, and in the case of a person who is resident abroad as well as resident or deemed to be resident in Canada, the Minister may determine what income is taxable hereunder.

Determination as to who are residents.

"(9) Every agreement for payment to any person of any money in respect of which a tax is imposed upon such person by this section, without deducting or withholding such tax, is void."

Creditor to bear tax.

15. Subsection one of section sixteen of the said Act is repealed and the following substituted therefor:—

"**16.** (1) Where a corporation having undistributed income on hand reduces or redeems any class of capital stock or shares thereof, or converts any class of the capital stock or shares thereof into any other class of capital stock, shares or other security thereof, the amount or the value of any consideration or right received by any shareholder by virtue of the reduction, redemption or conversion shall, to the extent to which such shareholder would be entitled to participate in such undistributed income on a total distribution thereof at the time of such reduction, redemption or conversion, be deemed to be a dividend and to be income received by such shareholder."

Capital stock changes.

16. Section twenty-three of the said Act is repealed and the following substituted therefor:—

"**23.** Where any corporation, partnership or individual carrying on business in Canada purchases any commodity from a parent, subsidiary or associated corporation or partnership at a price in excess of the fair market price, or where any corporation partnership or individual sells any commodity to any such parent, subsidiary or associated corporation or partnership at a price less than the fair market price, the Minister may, for the purpose of determining the income of any such corporation, partnership or individual, determine the fair price at which such purchase or sale shall be taken into its accounts for taxation purposes."

Purchases and sales at more or less than fair price.

17. Section 32A of the said Act, as enacted by section seven of chapter forty-eight of the statutes of 1938, and amended by section twenty-four of chapter thirty-four of the statutes of 1940, is repealed and the following substituted therefor:—

"**32A.** (1) Notwithstanding any of the provisions of this Act, where the Treasury Board is of the opinion that the main purpose for which any transaction or transactions was or were effected (whether before or after the passing of this Act) was the avoidance or reduction of liability to tax under this Act, it may, if it thinks fit, direct that such adjustment shall be made as respects liability to tax under this Act as it considers appropriate, so as to counteract the avoidance or reduction of liability to tax under this Act, which would otherwise be effected by such transaction or transactions, and tax shall be assessed and levied accordingly and shall be payable as in this Act provided.

Reference to Treasury Board.

(2) Notwithstanding anything in this Act contained, if upon examination of any transaction or transactions made directly or through the medium of third parties, or by the creation of new or intermediary companies, it appears to the Treasury Board that any payment or benefit in cash or otherwise, received by any person sub-

Idem.

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sequent to the year 1939 as a result of such transaction or transactions has been received directly or indirectly from a company having undistributed income on hand, then the Treasury Board may find that the main purpose of such transaction or transactions was to reduce or avoid taxation, and it shall thereupon be deemed for the purposes of this Act that such person, whether he received any such payment or benefit in the form of capital or otherwise, has received income subject to tax in such year or years since 1939 and in such amount or amounts the Treasury Board may determine, and tax shall be assessed and levied upon such person and shall be payable as in this Act provided.

Any such finding by the Treasury Board may be made notwithstanding that such transaction or transactions may have been entered into either within or without Canada or prior or subsequent to the coming into force of this section.

Idem.

(3) Notwithstanding anything in this Act contained, if substantially all of the shares of a company having undistributed income on hand have been purchased since the coming into force of this Act, by any other company or companies, the Treasury Board may find that the main purpose of the sale by the vendor was to reduce or avoid the tax which would have been paid by the shareholders of such company having undistributed income on hand on the distribution to them of the said undistributed income, and in such case, notwithstanding paragraph (n) of section four of this Act, the dividends paid or deemed to be paid by the company having undistributed income on hand and received or deemed to be received by any such other company or companies shall upon being so received or deemed to be received be taxed against such company or companies and the tax shall be assessed, levied and paid as in this Act provided.

Jurisdiction
of Exchequer
Court on
appeal.

(4) In any appeal from an assessment made pursuant to any finding, direction or determination of the Treasury Board under this section, the Exchequer Court of Canada shall have jurisdiction to determine whether the main purpose of the transaction or transactions or sale was the avoidance or reduction of liability to tax or whether any finding, direction, determination or adjustment ought to have been made or given, or was appropriate."

18. Subsection one of section thirty-three of the said Act, as enacted by section twenty of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

Annual
returns.

"33. (1) Every person liable to taxation under this Act shall on or before the thirtieth day of April in each year, without notice or demand, deliver to the Minister a return in such form as the Minister may prescribe of his total income during the last preceding year; provided, however, that the return in respect of the year 1942 shall be filed on or before the thirtieth day of June, 1943."

19. Subsection two of section thirty-five of the said Act, as enacted by section twenty-five of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

Corporation
returns.

"(2) Notwithstanding the provisions of section thirty-three of this Act, a corporation shall make a return within six months from the close of its fiscal period, and the tax shall be computed as if the said fiscal period coincided with the calendar year within which the said fiscal period ends and the provisions of the Act shall *mutatis mutandis* apply."

INCOME WAR TAX ACT AMENDMENTS

20. Subsection one of section thirty-nine of the said Act, as enacted by subsection one of section twenty-two of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

"39. (1) Every employer shall make a return on such form as the Minister may prescribe on or before the last day of February in each year showing Returns by employer.

(a) every person in his employ who received any salary or other remuneration in the preceding calendar year and the amount of such salary or other remuneration; and

(b) the amount of the tax deducted pursuant to section ninety-two of this Act from the salary and wages of each person in his employ in the preceding calendar year:

Provided, however, that the return in respect of the calendar year 1942 shall be filed on or before the thirty-first day of May, 1943, and shall show the amount of National Defence Tax deducted under section ninety-one of this Act in the months of January to August inclusive of the year 1942 and the amount of tax deducted pursuant to section ninety-two of this Act from the salary and wages of such employees in the months of September to December inclusive of the year 1942."

Provided.

21. The said section thirty-nine is further amended by adding thereto the following subsection:—

"(6) All persons are required to furnish, on such form as the Minister may prescribe, information showing the income derived from sources within Canada by way of dividends, interest, rents, royalties or other fixed or determinable annual or periodical profits and income, showing the amount thereof paid directly or indirectly, or credited to persons outside of Canada."

Information re payments abroad.

22. The said Act is further amended by inserting immediately after section 39A thereof the following section:—

"39B. Notwithstanding the provisions of section thirty-nine of this Act, on the discontinuance of any business or activity with respect to which payments as in this section referred to, have been made from which payments, deduction at the source has been or should have been made, the proprietor, secretary, treasurer, member, trustee, or any other like officer managing the said business or activity must file within one week from the cessation of the business or activity, the form prescribed by the Minister for the reporting of salary or wages, dividends and interest on fully registered bonds or debentures, as the case may be, reporting the names and addresses and showing,—

Cessation of business.

(a) the salary or wages paid to employees; and

(b) the dividends paid to shareholders; and

(c) interest paid to creditors holding fully registered bonds or debentures;

and in each case the amount that has been or should have been deducted at the source.

Failure to file any such form as herein required shall render any such person liable on summary conviction to a penalty of not less than one hundred dollars and not more than one thousand dollars

Penalty for failure to file form.

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and in default of payment, to imprisonment for a period not exceeding six months."

23. Subsections two, three, four, five and six of section forty-eight of the said Act, as enacted by section twenty-three of chapter twenty-eight of the statutes of 1942-43, are repealed and the following substituted therefor:—

Payment of
balance of
tax with
return.

"(2) Any person from whose salary or wages any amount has been deducted under section ninety-two of this Act shall, if the aggregate of his salary or wages during the taxation year is equal to or greater than three-quarters of his income for such year, pay to the Receiver General of Canada at the time when he is required under section thirty-three of this Act to make the return of his income for such taxation year, the amount by which the tax on his income during such year, as estimated under subsection one of this section, exceeds the aggregate of

(i) all amounts deducted from his salary or wages under subsection two of section ninety-two of this Act during the taxation year; and

(ii) all amounts deducted under subsection one of section ninety-two of this Act during the taxation year from interest or dividends forming part of his income; and

(iii) in respect of the tax payable on income for the year 1942 only, all amounts deducted from his income as National Defence Tax under the provisions of section ninety-one of this Act in the months of January to August, 1942, both inclusive,

and if any person fails to pay any amount which he is required to pay by this subsection, or any part of such amount, as thereby required, he shall pay interest thereon at the rate of five per centum per annum from the day on or before which such payment was required to be made to the day of payment;

Proviso.

Provided, however, that in respect of the taxation year 1942 only, a taxpayer shall pay not less than one-third of the unpaid tax for which he is liable in respect of such year on or before the thirtieth day of June, 1943, and shall pay the balance of the unpaid tax for which he is liable in respect of the said year on or before the thirty-first day of December, 1943.

Payment by
instalments.

"(3) Every person, other than a corporation or a person to whom subsection two of this section applies or a person whose chief business is that of farming, shall pay all taxes, which he is liable to pay upon his income during any taxation year under any of the provisions of this Act except sections 9B, 27 and 88 thereof, as estimated by him on his income for the year last preceding the taxation year or on his estimated income for the taxation year, in either case at the rates for the taxation year, by quarterly instalments during the taxation year as follows,—

(a) on or before the last day of March in such taxation year, an amount equal to one-fifth of such tax;

(b) on or before the last day of June and on or before the last day of September, respectively, in such taxation year, one-quarter of such tax; and

(c) on or before the last day of December in such taxation year, the remainder of the tax;

INCOME WAR TAX ACT AMENDMENTS

and if, after examination of any person's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by him under this subsection amount, in the aggregate, to less than the tax payable, he shall forthwith after notice of assessment is sent to him under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the thirty-first day of December in the taxation year until one month from the date of mailing of the said notice of assessment and thereafter at eight per centum per annum until the date of payment:

Provided, however, that in respect of the taxation year 1942 only, a taxpayer who was required to pay on the quarterly instalment basis shall pay any additional unpaid tax for which he is liable in excess of the quarterly instalments due on the fifteenth day of October, 1942, and the fifteenth day of January, 1943 on or before the thirtieth day of June, 1943 as to one-third thereof and the balance on or before the thirty-first day of December, 1943: Proviso.

Provided that if the instalments in the immediately preceding proviso referred to have not been paid they shall be paid forthwith with interest thereon at five per centum per annum from the respective due dates until date of payment. Proviso.

"(4) Every corporation shall pay all taxes which it is liable to pay in any taxation year under any of the provisions of this Act, except sections 9B, 27 and 88 thereof, by instalments payable on or before the last day of each month during the twelve month period ending six months after the close of such taxation year as follows:— Monthly
instalment
payments by
corporations.

(a) during each of the first eleven months in such period, an amount equal to one-twelfth of such tax as estimated by it on its income for the year last preceding the taxation year or on its estimated income for the taxation year at the rate for the taxation year; and

(b) during the twelfth month in such period, the balance of the tax payable as estimated by it on its income for the taxation year at the rate for the taxation year;

and if, after examination of any corporation's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by such corporation in any year under this section amount, in the aggregate, to less than the tax payable, it shall forthwith after notice of assessment is sent to it under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the day six months after the end of the taxation year until one month from the date of mailing of the said notice of assessment and thereafter at eight per centum per annum until the date of payment.

"(5) Every person whose chief business is that of farming shall pay two-thirds of the taxes which he is liable to pay upon his income during any taxation year under any of the provisions of this Act, except sections 9B, 27 and 88 thereof, on or before the thirty-first day of December in such taxation year and shall pay the remaining one-third of such taxes on or before the thirtieth day of April in the year following such taxation year; Payment
by farmers.

And if any such person fails to pay any amount which he is required to pay by this subsection, or any part of such amount as

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thereby required, or any amount as required by section eleven of the *Excess Profits Tax Act, 1940*, he shall pay interest thereon at the rate of five per centum per annum from the day on or before which such payment was required to be made to the date of payment;

And if, after examination of any such person's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by him under this subsection amount, in the aggregate, to less than the tax payable, he shall forthwith after notice of assessment is sent to him under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the thirtieth day of April in the year immediately following the taxation year until one month from the date of mailing of the said notice of assessment and thereafter at eight per centum per annum until the date of payment.

Interest.
Quarterly
payments.

"(6) Any person required to pay tax on the quarterly instalment basis as provided in subsection three of this section, or under section eleven of *The Excess Profits Tax Act 1940* who pays less on any quarterly instalment date than the required instalment as referred to in subsection three of this section or section eleven of the *Excess Profits Tax Act, 1940*, shall pay interest at five per centum per annum upon any deficiency until paid. The deficiency shall be the amount by which the amount paid is less than the required instalment mentioned in the said subsection and section when calculated at the taxation year rates, on either

(a) the income of the preceding year, or

(b) the income of the taxation year,

whichever is the lesser."

Interest
Corporation
instalments.

"(7) If any corporation in respect of any of the first six months' instalments for any year pays less than the required instalment of the tax as estimated by it in accordance with subsection four of this section at the required times it shall pay interest at the rate of five per centum per annum upon any deficiency from the due date until the date of payment and in respect of any of the last six instalments if it pays less than any instalment as required by the said subsection it shall pay interest at the rate of five per centum per annum upon any deficiency from the close of its fiscal period for the taxation year concerned to the date of payment.

Special provision re
quarterly
payment for
31st of
March, 1943.

"(8) Notwithstanding any of the provisions of this section interest shall not be charged in respect of the amount of the quarterly instalment due on the thirty-first March, 1943, in respect of income of the taxation year 1943, provided such quarterly instalment, together with the quarterly instalment due on the thirtieth June, 1943, is paid in full on or before the thirtieth June, 1943, but if not so paid, interest in respect of such quarterly instalment or any unpaid balance thereof which was due on the thirty-first March, 1943, shall be payable at the rate of five per centum per annum from the thirtieth June, 1943 until paid."

24. Section forty-nine of the said Act as enacted by section twenty-four of chapter twenty-eight of the statutes of 1942-43 is repealed and the following substituted therefor:—

Penalty
for short
payment.

"49. If any person fails to pay any amount which he is required to pay by subsection two of section forty-eight of this Act, or any part thereof, as thereby required, he shall pay, in addition to the

INCOME WAR TAX ACT AMENDMENTS

interest therein provided for, interest on the amount which he so fails to pay at the rate of three per centum per annum from the date on or before which such payment was required to be made to the date of payment."

25. Subsections two, three and four of section seventy-seven of the said Act, as enacted by section seventeen of chapter fifty-five of the statutes of 1934, are repealed and the following substituted therefor:—

"(2) Every person failing to deliver a return pursuant to the provisions of sections thirty-six to thirty-eight inclusive, within the time limited therefor, shall be liable to a penalty of ten dollars for each day of default: Provided, however, that such penalty shall not in any case exceed fifty dollars.

Other
returns.

Proviso.

"(3) (a) Every corporation and every other person who is subject to the provisions of *The Excess Profits Tax Act, 1940*, failing to deliver a return pursuant to the provisions of section thirty-nine within the time limited therefor, shall be liable to a penalty of twenty-five dollars for each day of default, with a maximum penalty of twenty-five hundred dollars;

Returns re
wages,
dividends,
interest.

(b) Every person not subject to the provisions of *The Excess Profits Tax Act, 1940*, failing to deliver a return pursuant to the provisions of section thirty-nine within the time limited therefor, shall be liable to a penalty of ten dollars for each day of default with a maximum penalty of one hundred dollars: Provided the Minister may reduce or waive any penalty under this paragraph.

Failure to de-
liver return.
Penalty.

Proviso.

"(4) Every person failing to complete the information required on the forms prescribed by the Minister for reporting income as required by sections thirty-three and thirty-five of this Act or any supplementary form that the Minister may prescribe shall be liable to a penalty of one per centum of the tax payable by such person: Provided, however, that such penalty shall not in any case, whether the person is taxable or not, be less than twenty-five dollars, and shall not in any case exceed one hundred dollars; And provided further that the Minister in the case of any person not subject to the provisions of *The Excess Profits Tax Act, 1940*, may reduce or waive any penalty under this subsection."

Returns to be
completed.

Proviso.

Proviso.

26. Section eighty-four of the said Act as enacted by section sixteen of chapter forty-one of the statutes of 1932-33 and as amended by section twenty-seven of chapter twenty-eight of the statutes of 1942-43, is further amended by adding thereto the following subsection:—

"(4) The provisions of this section shall not be applicable in respect of any sum of money required to be collected or withheld or remitted under the provisions of section ninety-two of this Act."

Exception.

27. (1) Subsection one of section ninety-two of the said Act as enacted by section thirty-one of chapter twenty-eight of the statutes of 1942-43, is amended by inserting therein immediately after subparagraph (ii) thereof the following subparagraph:—

"(iii) any amount by way of payment of oil or gas royalties except those paid to persons referred to in subsections twelve and thirteen of this section."

Oil
Royalties.

(2) Subsections two and nine of the said section ninety-two, as

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enacted by section thirty-one of chapter twenty-eight of the statutes of 1942-43, are repealed and the following substituted therefor:—

Salary and wages.

"(2) Every employer who after the first day of September, 1942, pays any salary or wages to any person in his employ who is resident or employed in Canada, with respect to any established pay-roll period commencing after the thirty-first day of August, 1942, or who after the thirtieth day of April, 1943, pays any salary or wages to any employee whose services were engaged in Canada and who has been sent outside of Canada temporarily to perform services on behalf of such employer, shall deduct or withhold from such salary or wages such amount in respect of the taxes payable under section nine of this Act by such person as may be prescribed by regulations made by the Governor in Council and published in the *Canada Gazette* and shall remit the same to the Receiver General of Canada as a payment on account of such taxes within one week of the day when he became liable to pay such salary or wages, or at such other time as the Minister may by regulation prescribe."

Penalty.

"(9) Notwithstanding any other penalty provided under this section, any person who fails to comply with any of the requirements of this section shall be guilty of an offence and liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment or to both fine and imprisonment."

(3) Paragraph (a) of subsection eleven of the said section ninety-two, as enacted by section thirty-one of chapter twenty-eight of the statutes of 1942-43, is amended by adding at the end thereof the following:

Employees outside Canada.

"any such payments made outside of Canada to any employee whose services were engaged in Canada and who has been sent outside of Canada temporarily to perform services on behalf of his employer; and"

(4) The said section ninety-two is further amended by adding thereto the following subsections:—

False return by employee to employer.

"(14) Any employee who files with his employer any form prescribed by the Minister and which is required of the employee to be filed with the employer, and states thereon false information, shall be guilty of an offence and liable on summary conviction to a penalty not exceeding one hundred dollars."

Failure to deduct from interest dividends, salary and wages.

"(15) Any person who fails to deduct or withhold any sum of money as required by this section, or the regulations made thereunder, shall be liable to a penalty of five per centum of

(a) the total of the interest payments for the period, or

(b) the total amount of dividends declared payable, or

(c) the total payroll for the pay period,

whichever is appropriate, in respect of which the prescribed deductions were not made in whole or in part, provided that such penalty shall not be less than fifty dollars nor more than five hundred dollars in respect of each interest period, each dividend declaration or each payroll period."

Failure to remit.

"(16) Any person who fails to remit any sum of money collected or withheld as required by this section shall, in addition to being

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liable for such sum of money collected or withheld be liable to a penalty of ten per centum of the said sum, the same to be assessed, together with interest on such sum at the rate of ten per centum per annum from the date when such sum should have been remitted to the Receiver General of Canada until the date of remittance, and the provisions of this subsection shall apply also to any National Defence Tax which has been deducted or withheld and which has not been remitted to the Receiver General of Canada."

"(17) The Minister shall send by registered letter a notice of assessment, Notice of Assessment

(a) demanding payment from the person owing money which has been withheld under the provisions of this section but not remitted or which should have been withheld, and any interest or penalties thereon imposed by virtue of the provisions of this section, and

(b) demanding payment of the penalties provided in subsections fifteen and sixteen hereof,

and such notice and the amount demanded therein shall be dealt with under the procedure laid down in the provisions of sections fifty-five to seventy-four of this Act, except that the time permitted for filing a notice of appeal as provided in section fifty-eight of this Act shall be one month, in lieu of the periods therein specified."

28. Section ninety-three of the said Act as enacted by section thirty-one of chapter twenty-eight of the statutes of 1942-43, is amended by adding thereto the following subsections:—

"(4) In respect of the year 1942 only, a person required to use the form and pay the tax according to the provisions of subsection two of section 9A of this Act shall in lieu of determining the refundable portion of the tax by reference to sections 93 and 7A respectively, have the maximum portion of the tax which may be refundable determined by reference to the appropriate column to be designated "Savings Portion" in the Table referred to in subsection two of section 9A hereof against which shall be deducted one-half only of the payments and premiums set forth in subparagraphs (a), (b), (c) and (d) of subsection one of section 7A. Amount Refundable Special.

"(5) Notwithstanding the provisions of the *Bankruptcy Act* or any other Act, the refundable portion of the income tax paid in respect of which a taxpayer may become entitled to repayment, shall not be assignable either in law or in equity, by order of the court, by voluntary assignment or otherwise." Refundable portion not assignable.
R.S., c. 11.

29. Subsection two of section seventy-five of the said Act is repealed and the following substituted therefor:

"(2) The Minister may make any regulations deemed necessary for carrying this Act into effect, including regulations designed to facilitate the assessment of tax in cases where the right of taxpayers to deductions or exemptions has varied during any taxation year, and may thereby authorize the Commissioner of Income Tax to exercise such of the powers conferred by this Act upon the Minister, as may, in the opinion of the Minister, be conveniently exercised by the Commissioner of Income Tax." Regulations.

30. Section two of the said Act is amended by adding thereto the following paragraph:—

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Western
Hemisphere.

"(t) "Western Hemisphere" shall not include Iceland or any part thereof."

31. *Rule 5* of section two of paragraph A of the First Schedule to the said Act, as enacted by section one of chapter twenty-eight of the statutes of 1942-43, is repealed, and the following substituted therefor:—

Tax Credit
for
dependents.

"*Rule 5*.—A taxpayer may deduct from the graduated tax otherwise payable by him in any year under this section, twenty per centum of any amount not exceeding \$400.00 expended by him during the taxation year for the support of any person who was, during the taxation year, dependent upon such taxpayer for support (except one such dependent by reason of whom such taxpayer is entitled to make a deduction under *Rule 3* of this section) and was

(a) his parent or grandparent and dependent by reason of mental or physical infirmity; or

(b) his brother or sister

(i) under eighteen years of age, or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity, or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and was resident in any part of His Majesty's Dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, one thousand nine hundred and thirty-nine and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada."

32. *Rules 1 and 2* of section three of paragraph A of the First Schedule to the said Act, as enacted by section one of chapter twenty-eight of the statutes of 1942-43, are repealed and the following maximum tax substituted therefor:—

"*Rule 1*.—The taxes payable in accordance with the *Rules* set out in sections one and two of paragraph A of this Schedule shall not, in the aggregate, exceed in any taxation year

(i) in the case of any person liable to taxation under *Rule 1* of section one of this paragraph and whose income is less than \$1,570.00, two-thirds of the amount by which the taxpayer's income exceeds \$1,200.00; and

(ii) in the case of any other person whose income is less than \$820.00, except persons liable to pay tax under *Rule 4* of section one of this paragraph, two-thirds of the amount by which the taxpayer's income exceeds \$660.00.

Basic
Income.

"*Rule 2*.—The tax payable by any member of the Canadian Naval, Military and Air Forces in the Canadian Active Service Forces in Canada and in receipt of service pay and allowances (exclusive of subsistence allowances up to \$1.70 per day and marriage and dependents' allowances) at a rate of \$1,600.00 or more per annum shall be reduced by a credit from the tax otherwise payable of an amount equal to the tax payable on \$1,600.00 in the case of a single person without

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dependents (or such amount appropriately increased by marriage and dependents' allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children):

Provided that if the taxable service pay and allowances of such member are in excess of \$1,600.00 per annum in the case of a single person without dependents (or such amount appropriately increased by marriage and dependents allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children) the tax credit to which the member of such forces would otherwise be entitled shall be reduced by the proportion which such excess bears to \$1,600.00 in the case of a single person without dependents (or to such amount appropriately increased by marriage and dependents allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children);

Proviso.

Provided further that in the case of a member of the Women's Royal Canadian Naval Service, the Canadian Women's Army Corps or the Royal Canadian Air Force (Women's Division), the figure of \$1,200.00 shall be used in lieu of the figure of \$1,600.00 hereinbefore set forth in this Rule; and

Proviso.

Provided further that in the case of a member of the said forces who is in receipt of taxable service pay and allowances at a rate in excess of \$1,600 per annum in the case of a single person without dependents (or such amount appropriately increased by marriage and dependents allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children) (or \$1,200.00 in the case of the members of the said Women's Forces) and who has been in the said forces for only a portion of the year, the credit from the tax otherwise payable shall be that proportion which the number of days during which he was in the forces bears to three hundred and sixty-five, of the appropriate credit to which he would have been entitled if he had been in receipt of service pay and allowances throughout the year."

Proviso.

Rule 3.—Notwithstanding any other provision in this Act contained, any member of the Canadian Naval, Military and Air Forces in the Western Hemisphere other than in Canada, shall be dealt with in the same manner as the persons referred to in Rule 2 of this section, except that any such person, in lieu of paying the tax otherwise payable in respect of his total income, shall in respect of his service pay and allowances be subject to tax at one-half of the effective rate of tax applicable to his total income."

Application to Rule 2.

33. (1) Sections one, four, fifteen, sixteen, nineteen and twenty-two of this Act, and subsections four, five, six and seven of section forty-eight of the *Income War Tax Act* as enacted by section twenty-three of this Act, sections twenty-four, twenty-five, twenty-six, twenty-nine, thirty and thirty-two of this Act, and paragraph (t) of section four of the *Income War Tax Act* as enacted by subsection two of section three of this Act, and paragraph (h) of subsection one of section nine of the *Income War Tax Act*, as enacted by section twelve

Coming into force.

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of this Act shall be applicable to income of the 1943 taxation period and fiscal periods ending therein and of all subsequent periods.

(2) Sections five, eight, nine, fourteen, twenty-one, and thirty-one of this Act, and paragraph (g) of subsection one of section nine of the *Income War Tax Act* as enacted by section twelve of this Act shall be applicable to income of the 1942 taxation period and fiscal periods ending therein and of all subsequent periods.

(3) Subsection four of section three of the *Income War Tax Act*, as enacted by section two of this Act, shall be applicable to income of the 1940 taxation period and fiscal periods ending therein and of all subsequent periods.

(4) Subsection five of section three of the *Income War Tax Act*, as enacted by section two of this Act shall be applicable to income of the 1939 taxation period and fiscal periods ending therein and of all subsequent periods.

(5) Paragraph (r) of subsection one of section five of the *Income War Tax Act*, as enacted by section six of this Act shall be applicable to income of the 1944 taxation period and fiscal periods ending therein and of all subsequent periods.

(6) Subsection five of section eight of the *Income War Tax Act* as enacted by section ten of this Act shall be applicable to income of the 1943 taxation period only and fiscal periods ending therein.

(7) Paragraph (s) of subsection one of section five of the *Income War Tax Act* as enacted by section six of this Act shall be brought into force on proclamation by the Governor in Council and shall be applicable to the fiscal period or periods designated in such proclamation.

Explanatory Notes

1. This amendment is to recognize the irrevocability of wills and trusts effective prior to the first day of January, 1944, and grants relief to beneficiaries depleting the corpus to the extent of \$1,500 per annum.

2. (4) The compensation arising from an office of employment paid on a per diem basis is brought in conformity with the treatment afforded salaries.

(5) This amendment removes any doubt as to the income of the recipient arising by virtue of his office.

3. (1) This paragraph is amended by adding to the sections referred to therein section 32A, thus removing the recipient corporation from the exemption.

(2) (t) implements the resolution regarding service pay and allowances.

4. (v) Members of the overseas units by this amendment are

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granted a six months exemption period on return to Canada following overseas service.

(w) This amendment exempts the war risk bonus of the merchant marine.

(x) This exempts one-third of the pay of members of the Ferry Command.

5. (1) This amendment re-enacts paragraph (p) of subsection one of Section 5 with the addition of the word "depletion" in the last line thereof.

(2) This amendment substitutes the word "members" for "commissioned officers".

6. (r) This amendment brings in the farm losses of two years in lieu of one.

(s) This recognizes income tax of a mining company as a deduction if it is actually used for the maintenance of municipal activities.

7. This amendment implements Resolutions Nos. 11 and 12.

8. This amendment permits payments on Dominion Government Annuities to apply as a deduction against the refundable portion otherwise payable in tax.

9. (1) This amendment permits the payments made by a taxpayer on the residence of his spouse to apply as a deduction against the refundable portion otherwise payable in tax.

(2) Estates are taxable on income accumulated and relief by way of refundable portion is not required.

10 and 11. These amendments give recognition, by way of alleviation from taxation, to certain expenditures in searching for oil, natural gas, metalliferous mines and strategic minerals.

12. (g) This amendment renders liable to tax employees temporarily employed outside of Canada.

(h) This amendment renders liable certain members of the Service Forces in the Western Hemisphere not including Iceland, but outside of Canada.

13. 9A (1) This amendment implements Resolutions Nos. 1 and 2.

(2) This amendment is designed to substantially eliminate

any necessity for tax calculation, and makes possible the use of a simplified form.

(3) This amendment is designed to continue the use of the simplified form and stating specifically tax liability with a minimum of calculation.

14. (7) By reason of some taxpayers carrying on business both within and without Canada, this is to facilitate the settlement of the question of residence.

(9) This continues the practice of the Department which lapsed through an omission in the 1942 amendments.

15. This is to prevent avoidance of taxation.

16. This is to prevent avoidance of taxation.

17. This is to control and prevent tax evasion.

18. The date for filing annual returns by all individuals will again be 30th April under this amendment. The proviso makes provision that the returns in respect of the year 1942 shall not be due until the 30th June 1943.

19. This amendment extends by two months the time within which a corporation must file its annual returns after the close of the corporation's fiscal period. Owing to the shortage of accountants, corporations have found it very difficult to get their accounts made up and returns compiled and filed within four months after the close of their fiscal period as heretofore required.

20. By reason of now being on the pay-as-you-go policy employers are again being required to file their information returns on or before the last day of February, showing the salaries paid to their employees and giving details of the tax deductions made at the source from such employees, and remitted to the Receiver General.

21. This amendment provides for obtaining detailed information in connection with investment income paid to non-residents of Canada.

22. As employers are required to deduct taxes at the source from salaries and wages paid to their employees and remit the monies deducted to the Receiver General within one week after the date of deduction, it is important to make this amendment

whereby the officers having the management of any business which ceases its activities are charged with the responsibility of furnishing to the Minister full information in connection with the amounts of money deducted and the names of their employees from whom tax was deducted prior to the cessation of the company's business, in order that credit may be given to the individual employees when filing their returns. A similar report is required in connection with the payment of dividends and interest and the deductions made therefrom.

23. (2) This provides the procedure under which the great majority of taxpayers who are wage earners shall pay any balance of tax owing in respect of any calendar year, after taking credit for amounts deducted at the source from their salary or investment income.

(3) This provides the procedure under which partners, sole proprietors and professional men are required to pay their tax currently by quarterly instalments on the last days of March, June, September and December in each calendar year.

(4) This provides the procedure under which all corporations must pay their tax by monthly instalments.

(5) This provides the procedure under which farmers pay their income tax liability in respect of the calendar year, namely by paying two-thirds of their liability on or before the 31st December in the taxation year and the remaining one-third on or before the 30th April following.

(6) This provides for interest on any deficiency in quarterly payments.

(7) This provides for interest on any deficiency in monthly instalment payments of corporations and in particular provides that if payments in the last six months during which payment may be made are deficient, that interest on such deficiency will commence to run from the close of the corporations' fiscal period. This is to ensure that corporations make adequate payments in the last six months of their instalment payment period after the close of the corporations fiscal period.

(8) Inasmuch as the quarterly instalment basis was necessary in order to get on the pay-as-you-go plan, an instalment in respect of 1943 Income Tax liability became due at the end of March last.

This subsection provides however that interest shall not be charged in respect of such quarterly instalment due on the 31st March, 1943, provided the total of the 1943 March and June instalments have been paid on or before the 30th June, 1943.

24. This is the regular additional 3% interest which has been provided for in the Income Tax legislation for many years in respect of non-payment of additional taxes found due and not paid within one month from the date of mailing of the Notice of Assessment.

25. (2) The only alteration here is the dropping of the reference in this subsection to Section 39. There is no change in the penalty.

(3) (a) This paragraph applies to corporation and businesses which are employers and are making tax deductions at the source from the wages of employees and in the case of corporations, tax deductions from dividends and registered interest. Such corporations are required to file returns annually with the Minister and in view of the greatly increased importance of these returns and the information contained therein to the taxpayers of the country, from whom moneys have been deducted as required by the provisions of this Act, it is necessary to provide for increased penalties for failure to supply the information to the Crown.

(b) This paragraph deals with the individual who may have one or more employees but whose business is so small that he does not come within the purview of the Excess Profits Tax Act. While it is just as important that a return be received from him when he has made deductions at the source from the salary or wages of his employees, and while the penalty has been increased for failure by him to file the necessary information returns, provision has been made for modifying the penalty by the Minister in cases of exceptional hardship.

(4) This paragraph provides for penalty for failure to complete information required on the forms and will cover the special Information Questionnaire which corporations are now required to file with their annual returns giving detailed information with respect to their method of doing business.

In view of the importance of obtaining this information it has been necessary to increase the minimum and maximum of the penalties which may be imposed, making provision, how-

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ever, for a modification thereof by the Minister in cases of exceptional hardship, where the penalty applies in respect of persons who are not conducting any extensive business or activities.

26. Special penalty provisions are provided in Section 92 of the Act dealing with tax deductions at the source. The provisions of Section 84 are being made not applicable to the deductions under Section 92.

27. (1) This provides for tax deduction at the source on the payment of oil royalties as if they were dividends and such oil royalties, where they have been taxed in the hands of the paying company are treated as dividends and not subject to tax when paid to another corporation.

(2) (2) The addition to this subsection covers payments made by Canadian employers to their employees whose services were engaged in Canada and who have been sent outside of Canada temporarily by the employer to perform services on behalf of the employer. Such employers now will be required to make tax deductions at the source from the salary or wages paid to such Canadian employees temporarily absent from Canada but who are resident or ordinarily resident in Canada, and therefore are subject to Canadian income tax.

(2) (9) The only alteration in this subsection is the opening phrase "Notwithstanding any other penalties provided under this section". This is necessitated by the new penalties provided in subsection (14) to (17) inclusive, in subsection (4) of this section.

(3) This is an addition to the definition of "salary or wages" to include payments made for services performed outside of Canada by employees who have been sent outside of Canada temporarily.

(4) (14) This provides a penalty for any taxpayer who may file a false information return with his employer, upon which his employer would act when determining the tax deductions to be made at the source from salary or wages of such employee.

(15) This provides a penalty for any person who fails to deduct at the source in respect of various income payments. It is necessary that all taxpayers receive uniformity of treatment.

(16) This subsection provides a penalty for failure to remit

any monies collected. The monies so collected are trust funds and must be strictly accounted for.

(17) This provides a similar method of assessing any penalty to that already contained in subsection 3 of section 84 of the Income War Tax Act. The Minister may make a written demand by registered letter addressed to the person owing the moneys which have been deducted. The subsection further provides that the time within which Notice of Appeal from such assessment may be filed be reduced.

28. (4) This is a special provision necessitated in connection with the use of the simplified form.

(5) This provides that the refundable portion of tax is not assignable by any taxpayer.

29. This gives the Minister power to deal with very special situations and tax complexities resulting, for example, when a taxpayer in the Military Forces moves from a zone where he is subject to full tax into a zone where he is either free from tax or is subject to the half-rate for part of the year, and then perhaps moving again into yet another zone.

30. This is a clarifying definition.

31. Rule 5. The only addition is that of the words in the brackets, which words are included in the immediately preceding Rule and are also necessary in this.

32. Rule 1. This is to give relief in cases of particular hardship within the income range where heretofore more than two-thirds of the income above the minimum figure was absorbed by income taxes.

Rule 2. This provides for a progressively graduated scale of income tax liability and makes for parity as between the income left after taxation to the Commissioned Officers and non-commissioned officers.

Rule 3. This rule contains the same principle as the immediately preceding rule, but applies to members of the Forces who are serving outside of Canada, and makes such members subject to tax at only one-half the effective rate of tax applicable on their respective incomes.

1943 AMENDMENTS OF
The Excess Profits Tax Act, 1940
7 George VI, 1943
CHAPTER 13

An Act to amend The Excess Profits Tax Act, 1940.

[assented to 20th May 1943]

HIS MAJESTY, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1940, c. 32;
1940-41, c. 15;
1942-43, c. 28.

1. Subsection one of section three of *The Excess Profits Tax Act, 1940*, chapter thirty-two of the statutes of 1940, as enacted by section two of chapter twenty-six of the statutes of 1942-43, is amended by adding thereto the following:

"Provided further that in the case of persons taxable under subsection three of section three of the *Income War Tax Act* the tax as provided in the Second Part of the Second Schedule to this Act shall not apply".

Proviso.
Oil or Gas
Royalty
Companies.
R.S., c. 97.

2. Subparagraph (i) of paragraph (b) of subsection one of section four of the said Act, as enacted by section four of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:

"(1) in the case where any alteration in the capital employed since the commencement of the last year or fiscal period of the taxpayer in the standard period has occurred, by adding to or deducting from (accordingly as the capital has been increased or reduced) the standard profits an amount equal to seven and one-half per centum per annum of the amount of the alteration in the capital:

Adjustment
to standard
profits.

Provided that in the case of a corporation or joint stock company such adjustment may only be made if the alteration in capital was accompanied by an equivalent alteration in capital stock; except that where an adjustment upward has been made in accordance with the provisions of subparagraph (ii) hereof for an increase in capital employed during the standard period (not accompanied by an increase in capital stock) an adjustment downward may be made for a subsequent decrease in capital employed whether or not such decrease has been accompanied by a reduction in capital stock, but not to an extent greater than the said upward adjustment; and,

Proviso.

Provided further that if an increase in capital to the extent of thirty-three and one-third per centum of the capital employed at the commencement of the year or fiscal period of the taxpayer next preceding the taxation year or alternatively to the extent of thirty-three and one-third per centum of the capital employed at the commencement of the last year or fiscal period of the taxpayer in the standard period has been so made, the taxpayer may apply under section five of this Act to have his standard profits ascertained by the Board of Referees as if he had not

Proviso.

THE CANADIAN CHARTERED ACCOUNTANT

been carrying on a business during the standard period: Provided that a corporation or joint stock company may apply as herein provided only when such increase in capital employed is accompanied by an equivalent increase in capital stock."

3. Paragraph (d) of subsection two of section six of the said Act, as enacted by section six of chapter twenty-six of the statutes of 1942-43, is repealed and the following substituted therefor:

Revenue
Losses.

R.S., c. 97.

"(d) losses of the taxpayer in the preceding year or years as ascertained and allowed under paragraphs (p) or (r) of subsection one of section five of the *Income War Tax Act*."

4. Section eleven of the said Act is repealed and the following substituted therefor:

Instalment
payment
of tax.

"11. Every person other than a corporation or joint stock company shall pay all taxes which he is liable to pay upon his profits during any taxation year under any of the provisions of this Act by quarterly instalments during the twelve month period ending six months after the close of each calendar year in which the fiscal period of the taxpayer ends as follows:—

(a) during the first six months of such period an amount equal to one-quarter of such tax as estimated by him on his income for the year last preceding the taxation year or on his estimated income for the taxation year, at the rate for the taxation year, on or before the last day of September and the last day of December;

(b) during the last six months of such period the balance of the tax payable as estimated by him on his income for the taxation year in an amount equal to one-half of such balance on or before the last day of March and one-half of such balance on or before the last day of June;

and if after examination of his return as under this Act required, it is established for the purposes of this Act that the instalments paid by him in any period under this section amount in the aggregate to less than the tax payable he shall forthwith after notice of assessment is sent to him as provided in this Act pay the unpaid amount thereof together with interest thereon at five per centum per annum from the day six months after the end of the calendar year in which the fiscal period of the taxpayer ends until one month from the date of mailing of the said notice of assessment and thereafter at eight per centum per annum until the date of payment."

Non-
application
of certain
sections of
Income
War Tax Act.

5. Subsection three and the first paragraph of subsection five of section forty-eight of the *Income War Tax Act* shall have no application to the provisions of *The Excess Profits Tax Act, 1940*.

6. Section fifteen of the said Act is repealed and the following substituted therefor:

Reference
to Treasury
Board.

"15. (1) Notwithstanding any of the provisions of this Act, where the Treasury Board is of the opinion that the main purpose for which any transaction or transactions was or were effected (whether before or after the passing of this Act) was the avoidance or reduction of liability to tax under this Act, it may, if it thinks fit, direct that such adjustment shall be made as respects liability to tax under this Act as it considers appropriate, so as to counteract the avoidance or reduction of liability to tax under this Act, which would

THE EXCESS PROFITS TAX ACT AMENDMENTS

otherwise be effected by such transaction or transactions, and tax shall be assessed and levied accordingly and shall be payable as in this Act provided.

(2) Notwithstanding anything in this Act contained, if upon examination of any transaction or transactions made directly or through the medium of third parties or by the creation of new or intermediary companies, it appears to the Treasury Board that any payment or benefit in cash or otherwise, received by any person subsequent to the year nineteen hundred and thirty-nine as a result of such transaction or transactions has been received directly or indirectly from a company having undistributed income on hand, then the Treasury Board may find that the main purpose of such transaction or transactions was to reduce or avoid taxation, and it shall thereupon be deemed for the purposes of this Act that such person, whether he received any such payment or benefit in the form of capital or otherwise, has received income subject to tax in such year or years since 1939 and in such amount or amounts as Treasury Board may determine, and tax shall be assessed and levied upon such person and shall be payable as in this Act provided.

Any such finding by Treasury Board may be made notwithstanding that such transaction or transactions may have been entered into either within or without Canada or prior or subsequent to the coming into force of this section.

(3) Notwithstanding anything in this Act contained, if substantially all of the shares of a company having undistributed income on hand have been purchased since the coming into force of this Act, by any other company or companies, Treasury Board may find that the main purpose of the sale by the vendor was to reduce or avoid the tax which would have been paid by the shareholders of such company having undistributed income on hand on the distribution to them of the said undistributed income, and in such case, notwithstanding section four (a) of the *Income War Tax Act*, the dividends paid by the company having undistributed income on hand and received or deemed to be received by any such other company or companies shall upon being so received or deemed to be received be taxed against such company or companies and the tax shall be assessed, levied and paid as in this Act provided.

(4) In any appeal from an assessment made pursuant to any finding, direction or determination of the Treasury Board under this section, the Exchequer Court of Canada shall have jurisdiction to determine whether the main purpose of the transaction or transactions or sale was the avoidance or reduction of liability to tax or whether any finding, direction, determination or adjustment ought to have been made or given, or was appropriate."

7. The said Act is further amended by adding thereto the following section:—

"15A. Notwithstanding anything in this Act contained, in any case where a company has a controlling interest in any other company or companies (hereinafter called controlled company or companies) incorporated in 1940 or thereafter (other than companies incorporated to carry out a contract or arrangement negotiated by the Minister of Munitions and Supply and in receipt thereunder of a management fee or other similar compensation), and the sum of the capital employed by such company and such controlled company or

Standard
profits of
certain
controlled
companies.

companies at the time of incorporation is not in the opinion of the Minister of National Revenue substantially greater than the capital employed by such first-mentioned company prior to the incorporation of such controlled company or companies, the standard profits of all such controlled companies taken together shall not exceed \$5,000 in the aggregate, and shall be allocated to each of such controlled companies in such amounts as the Minister of National Revenue may direct.

No reference
to Board of
Referees.

In any such case a reference to the Board of Referees shall not be made notwithstanding the provisions of section five of this Act".

Application
of Secs. 1, 7.

3. (1) Sections one and seven of this Act shall be applicable to the profits of the 1942 taxation period and of fiscal periods ending therein and of subsequent periods.

Application
of Sec. 2.

(2) Section two of this Act shall be applicable to the profits of the 1940 taxation period and of fiscal periods ending therein and of subsequent periods.

Application
of Sec. 3.

(3) Section four of this Act shall be applicable to the profits of the 1943 taxation period and of fiscal periods ending therein and of subsequent periods.

Explanatory Notes

1. This amendment limits the application of Excess Profits tax to 22% (plus 18% income tax) in the case of oil royalty companies.

2. The amendment to the first proviso provides for the equalization of treatment. In the case where the capital employed in the standard period has increased, and 7½% thereof has been added to the profits of the years or portions thereof of the Standard Period, a like deduction of 7½% will be taken from the Standard Profits if during the taxation years the capital employed has been reduced, even though there has been no share capital alteration.

The amendment to the second proviso is to bring the adjustments pertaining to companies who have increased the capital employed by 33⅓% or more in line with the first proviso in section 4(1)(b)(i), thus securing uniformity of treatment.

3. This amendment gives taxpayers parity of treatment under this Act and the *Income War Tax Act*.

4. This is designed to prevent the continued overlapping of instalment payments under the *Income War Tax Act* and *The Excess Profits Tax Act* as to payments in the case of unincor-

THE STATE AUDITOR

porated taxpayers, so that the payment dates under the *Income War Tax Act* and *The Excess Profits Tax Act* will be the same.

6. This is the same provision as enacted under section 32A of the *Income War Tax Act*.

7. This amendment provides that if a company incorporates subsidiary companies without increasing the aggregate capital employed by the parent and subsidiaries, the subsidiary companies shall receive a standard profit not greater than \$5,000 in the aggregate.

THE STATE AUDITOR

The work of the state auditor is discussed in a pamphlet entitled "The State Auditor", published at 50 cents per copy by the Bureau of Business Research, University of Kentucky, Lexington, Ky. The pamphlet was prepared by James W. Martin, director, and two former research assistants of the University of Kentucky Bureau of Business Research.

The authors emphasize the necessity for distinguishing between administrative pre-audit control, and legislative post-audit control performed by review of administrative activities. They find from extended analysis of experience and present practice in Kentucky and in other states that performance of the second function is improved if the public appreciates the distinction between audit and current financial control. Especially is it essential that, as in private business practice, the auditor and the administrators understand each other's functions and appreciate that sound business requires a critical review of financial procedures after the close of the fiscal period.

Three objections to a post-auditor's performing administrative duties, such as bookkeeping, pre-auditing, and the like, are named in the University of Kentucky report: (1) that practice places the auditor in the position of reviewing his own work; (2) it prevents clear-cut assignment of executive responsibility and thus interferes with the dispatch of public business; and (3) it consumes the auditor's time with details, so that he is unable to pay proper attention to post audit duties.

A second factor which affects the auditor's independence, Professor Martin and his colleagues show, is the method of his selection. The study of state practices indicates that the selection of the head of the auditing agency through appointment by the governor or other administrative official is unsatisfactory because political allegiance to the administration may result in biased reviews. The auditor named by the governor is reluctant to find anything wrong with gubernatorial performance. Two alternative and superior methods of selection now employed in several states are: (1) popular vote and (2) appointment by the legislature. The second method is most frequently favoured by experts because of the auditor's potential service to the legislature directly and because a smaller group can more wisely determine the merits of an individual for a position of a highly technical nature.

In addition, according to the University of Kentucky authors, the organization and personnel of the audit agencies can greatly influence the effectiveness of post-auditing.

Deferred Income Tax

The 1943 amendments to the *Income War Tax Act* include a new Section 9A which provides for reduced tax liability for 1942. Under this new section, subsection (1) paragraph (b) provides for a deferred liability on those with investment income in excess of \$3,000. Instead of leaving this liability to his executors, however, the taxpayer may elect to pay "before death and on or before the thirtieth day of April, 1944, the discounted value of the said other half (less the refundable amount included therein) of the said total tax calculated at a discount rate of 2% per annum for the period of normal expectation of life of a person of the age of the taxpayer as shown by mortality tables approved by the Minister".

Under date of 14th June 1943, the Commissioner of Income Tax has issued the following mortality tables which have been approved by the Minister in accordance with this section of the Act.

Re: Section 9A, (1) (b), *Income War Tax Act*

Canadian Life Table No. 1, 1931, Males, showing according to age (1) the expectation of life and (2) the value of one dollar of tax

DEFERRED INCOME TAX

discounted for the term of the expectation of life at a rate of discount of 2% per annum.

Age	Expectation of Life	Discounted Value of One Dollar	Age	Expectation of Life	Discounted Value of One Dollar
5	62.30	.28404	56	19.14	.67931
6	61.47	.28885	57	18.41	.68940
7	60.61	.29391	58	17.69	.69950
8	59.74	.29912	59	16.99	.70947
9	58.86	.30449	60	16.29	.71957
10	57.96	.31007	61	15.60	.72967
11	57.05	.31583	62	14.92	.73976
12	56.14	.32169	63	14.26	.74969
13	55.22	.32772	64	13.61	.75960
14	54.31	.33380	65	12.98	.76933
15	53.41	.33993	66	12.36	.77903
16	52.52	.34609	67	11.76	.78853
17	51.64	.35230	68	11.18	.79783
18	50.77	.35855	69	10.61	.80707
19	49.91	.36483	70	10.06	.81608
20	49.05	.37123	71	9.52	.82504
21	48.20	.37766	72	9.00	.83375
22	47.36	.38412	73	8.51	.84204
23	46.51	.39077	74	8.03	.85025
24	45.67	.39746	75	7.57	.85819
25	44.83	.40426	76	7.14	.86567
26	43.98	.41127	77	6.72	.87305
27	43.12	.41847	78	6.33	.87996
28	42.27	.42572	79	5.96	.88656
29	41.41	.43318	80	5.61	.89285
30	40.55	.44078	81	5.27	.89900
31	39.69	.44850	82	4.95	.90483
32	38.82	.45645	83	4.65	.91034
33	37.96	.46445	84	4.37	.91550
34	37.10	.47259	85	4.10	.92051
35	36.23	.48097	86	3.85	.92517
36	35.38	.48930	87	3.61	.92966
37	34.52	.49788	88	3.39	.93381
38	33.67	.50650	89	3.17	.93797
39	32.83	.51517	90	2.97	.94176
40	31.98	.52410	91	2.79	.94519
41	31.14	.53307	92	2.61	.94864
42	30.29	.54230	93	2.44	.95190
43	29.46	.55147	94	2.29	.95479
44	28.62	.56091	95	2.14	.95769
45	27.79	.57039	96	2.00	.96040
46	26.96	.58004	97	1.87	.96293
47	26.14	.58973	98	1.75	.96526
48	25.33	.59946	99	1.64	.96741
49	24.52	.60935	100	1.53	.96956
50	23.72	.61927	101	1.43	.97152
51	22.93	.62924	102	1.33	.97349
52	22.15	.63923	103	1.24	.97526
53	21.39	.64912	104	1.16	.97684
54	20.63	.65917	105	1.09	.97822
55	19.88	.66923	106	1.02	.97960

DEPARTMENT OF NATIONAL REVENUE

A government bill received its first reading in the House of Commons on 10th June, providing for some important changes in the organization of the Department of National Revenue. The amendment is intended to substitute two deputy ministers for the present commissioners. The following is the text of the amendment:

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. Section three of the *Department of National Revenue Act*, chapter one hundred and thirty-seven of the Revised Statutes of Canada, 1927, is repealed and the following substituted therefor:

3. (1) The Governor in Council may appoint two officers to be designated respectively as the Deputy Minister of National Revenue for Taxation and the Deputy Minister of National Revenue for Customs and Excise.

(2) The Deputy Minister of National Revenue for Taxation shall be the lawful deputy of the Minister, exercising power and authority as if he were deputy minister of a separate department of government charged with the control, regulation, management and supervision of internal taxes including income taxes and succession duties.

(3) The Deputy Minister of National Revenue for Customs and Excise shall be the lawful deputy of the Minister, exercising power and authority as if he were deputy minister of a separate department of government charged with the control, regulation, management and supervision of duties of customs and excise including taxes imposed by the *Special War Revenue Act*.

(4) Wherever in any statute, regulation, authorization or order there appears the expression "Commissioner of Income Tax" or "Commissioner of Succession Duties" or "Commissioner of Customs" or "Commissioner of Excise", the said statute, regulation, authorization or order shall be read and construed as if the expression "Deputy Minister of National Revenue for Taxation" were substituted for the expression "Commissioner of Income Tax" or "Commissioner of Succession Duties" and the expression "Deputy Minister of National Revenue for Customs and Excise" were substituted for the expression "Commissioner of Customs" or "Commissioner of Excise", as the case may be.

(5) The Minister may, subject to the provisions of the *Civil Service Act*, from time to time authorize the employment of such temporary or acting officers of National Revenue as are required to carry on the work of the Department.

2. Item (c) of the Schedule to the said Act is amended by striking out the words "Part IV to XIV" and substituting therefor the words "Part II and Parts IV to XVII".

AUDITING UNDER DIFFICULTIES!



Milton Howard, chartered accountant, Winnipeg, sends to THE CANADIAN CHARTERED ACCOUNTANT the accompanying illustration of how an auditor obtains access to the records in the (not very far) north, and we thought it a good idea to publicize it in the off season. "Sometimes", says Mr. Howard, "we are put out when we find that our client is so cramped for space that it is difficult to find a desk for the auditor. This occasion presented a different problem. The Red River was in flood with the result that the auditor had to obtain a boat to reach the office and obtain the records. Fortunately there were only three feet of water on the floor and the majority of files and other documents had been placed on shelves above that height."

NEW INCOME TAX GUIDE

"How to Prepare Your Income Tax", by Lancelot J. Smith, chartered accountant, Toronto, is a new booklet of 90 pages published at 50 cents per copy by Wm. Collins Sons & Company, Canada Limited, 70 Bond Street, Toronto, Ontario.

It gives illustrations of how the new forms should be filled in, with references to the text for further particulars, also a list of dividends paid by leading Canadian companies with applicable depletion allowances, and other special features. There is an index at the back of the book.

Inventory Reserves

By Frank S. Capon

Chartered Accountant

Montreal, P.Q.

ON reading the May issue of THE CANADIAN CHARTERED ACCOUNTANT, I was most interested to find Professor Wade's comments on inventory reserves, and since discussion on the subject has been invited, I am taking the liberty of putting forward some further thoughts.

On the basis of accounting theory Professor Wade apparently reaches the conclusion that losses should not (in fact cannot) be charged against income until the amounts have been definitely established. This theory was reasonably satisfactory in normal times, since the types of deferred losses now being encountered were of no consequence before the war, and in any event there was not the same urgent need to make maximum charges against taxable income at the pre-war rates. Under present operating conditions and tax rates, however, the theory appears to be totally inadequate, and wide recognition of this fact has brought about the change in accounting treatment noticed by Professor Wade.

The theoretical problem seems to apply to a wide range of potential losses, of which a future inventory price decline is by no means the greatest, and a few examples of these losses are given below:

1. **Deferred Repairs.** Under normal conditions regular maintenance repairs are undertaken as required and are charged against the year's income. During the war it is often impossible to obtain materials or to shut down manufacturing facilities to make regular maintenance repairs, and increasing damage to equipment or buildings results. The costs of these repairs should be charged against income at the time the repairs are required, and income is overstated to the extent that such charges are not made.

2. **Abnormal Wear & Tear.** The value of plant buildings and equipment is in effect a prepaid expense to be absorbed in manufacturing costs over the useful life of the asset. Under present conditions of maximum output and deferred repairs, wear and tear is abnormally heavy,

INVENTORY RESERVES

and amounts at present allowed for extra or accelerated depreciation are inadequate.

3. **Obsolescence.** Owing to tremendous increases in the volume of output in wartime, technological developments are to be expected which will render considerable portions of industry's pre-war facilities obsolete.

4. **Post-War Staff Reorganizations.** Sweeping personnel changes will be required by practically every company in the re-adjustment to a peacetime economy. These changes are directly attributable to current operating conditions.

5. **Inventory Losses.** In addition to the heavy losses that will result from price declines, further substantial losses will be incurred on materials manufactured solely to meet direct or indirect war needs.

All of the above items, and many more, represent expenses that will be paid out at a later date, but which are directly attributable to present conditions. Payment of these expenses must be postponed for one reason or another, but unless current production, which obtained the benefit of the use of facilities, etc., is charged with a proper proportion of the loss, current profits are overstated. Under a maximum 100% tax rate, industry cannot afford to overstate profits, or funds will not be available to meet these losses when they are finally realized.

Provisions out of current income for indeterminable or contingent losses have always been frowned upon by both accounting and taxation authorities, because it is frequently difficult or impossible to establish definitely when such losses were actually suffered, and because the treatments of the inevitable adjustments to reflect the actual losses were always awkward. Owing to completely changed conditions, the reversal of this earlier thinking appears to be essential in the interests of accountants as much as shareholders. The main function of management is to make profits for shareholders and bookkeeping theories or procedures that result in excess cost of even one dollar cannot be tolerated.

So far, the Income Tax Division has officially recognized only one of the above types of indeterminable losses as a proper charge against current incomes, but it is essential to industry's welfare that much broader allowances be made. Accordingly, there appears to be little practical

value in discussing purely theoretical points on the calculation of inventory reserves at this time, but some very tangible benefits might be obtained from serious consideration of the whole field of deferred losses not at present chargeable against taxable income. Such a discussion might well be held between professional, academic and industrial accountants at the coming annual meeting of the Association.

There is one other point brought out by Professor Wade on which I would like to comment. He questions the adoption of a "first-in first-out" basis for necessary inventory losses which I had proposed to charge against prior years' income. This suggestion, like my entire article, was made not so much as a fixed proposal but as a novel angle for discussion. The reason for choosing the "first-in first-out" basis, however, was purely practical, as this basis and its several variations have been accepted by the Income Tax Division for many years. The last-in first-out basis, which would probably be more acceptable to Professor Wade and which would in effect obviate the need for inventory reserves, has been officially ruled out by the Division, and it seemed unnecessary to introduce a further contentious point into an already involved argument.

PERSONALS

Messrs. J. E. McIntosh, B.Com., C.A., and O. H. Harder, C.A., announce that they are practising their profession as chartered accountants at 311 Bank of Nova Scotia Building, Vancouver, British Columbia, under the firm name of McIntosh & Harder.

Current Accounting Literature

VOLUME XXIV, No. 17, 1st May 1943, of the National Association of Cost Accountants (385 Madison Avenue, New York) presents the third and final report in a series based on a questionnaire study of the practice of industrial companies in accounting for various types of expenditures arising out of wartime production. In addition to information on accounting for depreciation and amortization of machinery and equipment this report contains some general comments on the accounting practices revealed by this study, designed to aid in the interpretation of the practices reported. This study of current practice was conducted under the direction of George D. Ellis, national director in charge of research for the Association.

Tax and Reserve Funding

Problems in the Funding of Tax and Other Reserves are dealt with by W. Arnold Hosmer in another section of the 1st May Bulletin, No. 17, of the National Association of Cost Accountants. He provides a picture of the effect of high taxes and wartime production on the working capital positions of industrial companies, and reviews the provisions which may be and are being made now to assure that present abnormal conditions and the conditions to be expected in the early post-war years shall not destroy the solvency of industrial companies. Mr. Hosmer is professor of accounting at the Graduate School of Business Administration, Harvard University.

Renegotiation of Contracts

"Development of Contract Renegotiation and Function of the Price Adjustment Boards" is the title of Bulletin No. 18, 15th May 1943, of the National Association of Cost Accountants. The author is Lieutenant Elmer F. Dow, who is in ordnance work with the U.S. army. An introductory note points out that "the legal provisions with respect to renegotiation are so general and so much is left to the judgment and discretion of price adjustment boards in determining what is excess profits that it is essential that everyone connected with renegotiation proceedings keep continuously informed on new developments and changing viewpoints." The author discusses his subject under the

following three heads: History and background of the Renegotiation Act; methods and procedures of prices adjustment boards whose responsibility it is to carry on actual renegotiations and arrange settlements with the companies concerned; functions of the cost analysis sections whose responsibility it is to provide adequate information to the price adjustment boards to be used in arriving at and substantiating agreements concluded with the companies being renegotiated. While of course the wording of the law is not directly applicable to Canada, there is a close parallel between the circumstances in the two countries.

The broad topic of renegotiation of government contracts is also covered in the May 1943 issue of *The New York Certified Public Accountant* (15 East 41st Street, New York) in three separate articles, one dealing with the U.S. army, one with the navy, and the third with questions and answers. This material results from a meeting held in April by the New York State Society of Certified Public Accountants.

A review of the subject of renegotiation is also given by George N. Farrand in the May issue of *The Journal of Accountancy* (13 East 41st Street, New York).

The general subject of "War Contracts, Costs and Profits" is also dealt with by Victor H. Stempf in the June issue of the same magazine.

Computing Earnings and Profits

The distinction between accumulated earnings and profits under income tax law, and earned surplus under corporate law, is explained in an article by Vincent H. Maloney in the May 1943 issue of *The Journal of Accountancy*. Rules applicable in computing earnings and profits to be included in invested capital, for excess profits tax purposes, are briefly summarized. Preparation of working papers and schedules to support items relating to earnings and profits in excess profits tax returns is discussed, and some of the usual adjustments to earned surplus are explained.

Auditing Standards

"Why We Need Auditing Standards" is the title of an article by S. S. Webster, Jr., in the May 1943 issue of *The Journal of Accountancy*. The article submits a tentative statement of primary auditing requirements with re-

spect to major classifications of balance sheet items and income and expense accounts, together with a statement of general standards relating to the bases upon which the accounts should be stated, the genuineness of the transactions, and the adequacy of the system of internal control.

The Profession

"The Future of the Accountancy Profession" was the topic of a paper by F. R. M. de Paula, O.B.E., F.C.A., delivered at a joint meeting of the Liverpool Chartered and Incorporated Accountants in March, and published in the 8th May issue of *The Accountant* (The Institute of Chartered Accountants in England and Wales, Moorgate Place, London, E.C. 2, England). The speaker concluded with several definite suggestions. One was that education for the profession, which thus far in Britain is mainly by correspondence courses, be raised to university standard if possible. Research work, uniformity in accounting, and revision of company law were other problems demanding attention, in his opinion. He also expected that increased numbers of the profession would drift into full time employment in industry and commerce, and pointed out that this gave rise to many new problems in respect to their relation to those who were in public practice.

Office Manuals

The office manual is dealt with by E. H. Conarroein, Bulletin No. 19, 1st June 1943, of the National Association of Cost Accountants. The author has been director of management service of the Policyholders Service Bureau of the Metropolitan Life for the past fifteen years. In these days of curtailed staffs, when there is so little time for personal supervision and instruction, many industrial executives will find the publication helpful, because it describes the various types of office manuals, their scope and usefulness.

Percentages in Accounts

"The Use of Percentages in Accounts", which is a topic that brings out diverse opinions in almost any quarter, is dealt with in a brief copy of a lecture reported in the 20th April issue of *The Accountants' Journal of New Zealand* (Accountants' Chambers, 39 Johnston Street, Wellington, N.Z.). The uses are summarized as follows: To interpret

the result of operations over a period; to forecast future positions such as for the construction of stock controls, weekly or monthly profit and loss accounts, etc.; and for costing purposes.

Cost Controlling

"The Art of Cost Controlling" is the title of an article by A. J. Gairns in the 25th March issue of *The Federal Accountant* (c/o Federal Institute of Accountants, Vaughan House, 108 Queen Street, Melbourne, Australia). It is intended to bring out the importance of cost control apart from mere cost finding. "The corner stone of control", it states, "is an efficient and costminded foreman who can appreciate the viewpoint of the management. If he is in sympathy with the aims of his executives he will, on taking up a job, set his men time limits on its completion. Jobs which are repeated are quickly standardized, and bonus or task rates set on all work of a repetitive character."

OBITUARIES

The Institute of Chartered Accountants of Saskatchewan records with deep regret the death of Flt. Lt. Ernest B. Stapleford.

Flt. Lt. Stapleford, a son of Dr. and Mrs. E. W. Stapleford, formerly of Regina, now of Toronto, was killed in a flying accident on 26th March 1943 while on active service in Alaska.

Educated at Regina College, he was admitted to the Institute after passing the final examination in 1933, having served his articles with Rooke, Thomas & Company of Regina. He was later employed by the Provincial Tax Commission at Regina until the time of his enlistment in December 1940.

He is survived by his widow, Mrs. Evelyn Ord Stapleford and two children Joan and Ernest.

To his widow and family the members extend their sincere sympathy.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

Since 1932 the steel industry in Great Britain has regulated its own prices, the policy being continued and perfected in wartime with statutory sanction. The Comptroller and Auditor General has now reported on his investigation into the wartime operation of the industry and finds that "As a result of these control prices the industry as a whole appears to have obtained a higher rate of profit than that normally allowed under the Ministry's costed contracts". Just what this means we do not know but we suspect the worst from a cartelized industry which although it has kept the price of steel fairly stable since November 1940 (despite rising costs) had by that date attained a position where British iron and steel prices were high above world prices, sometimes as much as 50 per cent above. The Auditor General, like the Federation, points as an extenuating circumstance to the fact that plant and equipment are being cruelly used and that their proper replacement at the end of the war will be a social gain. But can we not assume that adequate and indeed generous allowance was made for the circumstance in the depreciation deducted in the accounts and are the British public not being invited to allow twice over for this factor? As one commentator has said, "It is hard to grasp how, in the face of this staggering fact Parliament and the public could go on swallowing the monopolists' talk of the benefits of unity and the dangers of free competition. The worst of it is that this sales patter of big business still deceives a large section of the public".¹

* * *

Here in Canada a matter of more direct concern is the tendency, discernible from a study of the published annual statements of Canadian industrial companies, for management to make allowance, in computing periodic income, for contingencies of every description without making clear on

¹*The Manchester Guardian Weekly*, "Finance and Commerce" 14th May 1943.

the face of the accounts either the amount of the provision or the facts which prompted the provision and on which judgment concerning it has been based. It is true that the war has imported into business a degree of uncertainty as to future earnings (and hence present capital values) never before experienced, but this seems to us to be no justification for obscuring the results of current operations so as to deprive shareholders and the public at large of an opportunity of forming their own opinion on these matters. And if they are to form their own opinion they must be given the fullest information in regard to both the nature and amount of any provisions against contingencies deducted in arriving at the reported figure of net income. There is indeed a grave risk that the world may lose what little faith it still has in accounting statements. As accountants we should be actively combatting this risk, not aggravating it.

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PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1942

Accounting 1. Question 2 (20 marks)

From the statements following, submitted by Brown & Jones (a co-partnership) conducting a retail grocery store, prepare

- (a) a profit and loss account for the year ended 31st December 1941, and
- (b) the capital accounts of the partners who share equally in the profits:

BALANCE SHEETS

AS AT 31st DECEMBER 1941 and 1940

Assets		31st December	
		1941	1940
Current:			
Cash		\$ 10,500	\$ 7,500
Customers' accounts receivable		55,000	51,000
Inventories		105,000	90,000
Total current assets		<u>\$170,500</u>	<u>\$148,500</u>

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Prepaid:

Insurance and real estate taxes	\$ 2,500	\$ 2,250
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Fixed—at cost, less depreciation:

Real estate	\$ 15,000	\$ 10,000
Buildings	55,000	57,000
Equipment	9,000	10,000
Motor vehicles, etc.	10,000	12,000

Total fixed assets	\$ 89,000	\$ 89,000
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Total assets	\$262,000	\$239,750
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Liabilities

	31st December	
	1941	1940
Current:		
Notes payable—bank	\$ 50,000	\$ 40,000
Trade accounts payable	15,000	10,000
Manager's bonus	2,000	1,000
Total current liabilities	\$ 67,000	\$ 51,000

Capital:

John Brown	\$125,000	\$104,000
David Jones	70,000	84,750
Total capital	\$195,000	\$188,750
Total liabilities and capital	\$262,000	\$239,750

CASH RECEIPTS AND DISBURSEMENTS

FOR YEAR ENDED 31ST DECEMBER 1941

Cash on hand—31st December 1940	\$ 7,500
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Receipts:

Customers	500,000
Rent of apartments above stores	2,000
Supplies—refunds on defective goods	750
Haulage, etc.	1,500
Bank loans	90,000

Disbursements:

Wholesalers	\$400,000
Wages of store assistants	15,000
Wages of drivers	7,500
Miscellaneous expenses, including telephone, etc.	6,000
Manager's bonus—year 1940	1,000
Bank loans	80,000
Interest on bank loans	3,450
Insurance and real estate taxes	3,000
John Brown	15,525
David Jones	51,275
Real estate purchased	5,000
Motor vehicles purchased	3,500
Cash on hand—31st December 1941	10,500

\$601,750	\$601,750
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THE CANADIAN CHARTERED ACCOUNTANT

**SOLUTION
BROWN & JONES**

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1940

Sales		\$504,000
Cost of sales:		
Purchases	\$405,000	
Less: Allowances	750	
	<u>\$404,250</u>	
Increase in inventory	15,000	389,250
		<u>\$114,750</u>
Gross profit		
Wages—Store assistants	15,000	
Drivers	7,500	
Insurance and real estate taxes	2,750	
Miscellaneous expenses	6,000	
Manager's bonus	2,000	
Bank discount and exchange	3,450	
Depreciation:		
Buildings	\$2,000	
Equipment	1,000	
Motor vehicles, etc.	5,500	8,500
		<u>\$ 45,200</u>
Miscellaneous revenue:		
Rent	2,000	
Haulage, etc.	1,500	3,500
		<u>41,700</u>
Net income		<u>\$ 73,050</u>
Apportioned to partners equally:		
J. Brown	36,525	
D. Jones	36,525	\$ 73,050

Partners' Accounts

Partner	Balance 31st December 1940	Profits for 1941	Drawings in 1941	Balance 31st December 1941
J. Brown	\$104,000	\$ 36,525	\$ 15,525	\$125,000
D. Jones	\$4,750	36,525	51,275	70,000
Total	<u>\$188,750</u>	<u>\$ 73,050</u>	<u>\$ 66,800</u>	<u>\$195,000</u>

PROBLEM II

FINAL EXAMINATION, DECEMBER 1942

Accounting 2. Question 3 (25 marks)

You have been asked to give an address to a group of bookkeepers who are older men and who are helping the war effort by taking on more responsible positions than their knowledge of modern accounting might warrant. Your subject is distribution of overhead so far as it relates to a specific order or job cost system.

You should cover the advantages and disadvantages of each dis-

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tribution system and state in what type of business each system is most applicable. Use simple illustrations wherever possible to illustrate your points.

Draft such an address.

SOLUTION

Skeleton of Address

(1) Opening remarks and purpose.

(2) Definition of what should be included in overhead. Stress importance of budgeting expenses so that all unnecessary peaks are eliminated. This has particular reference to the setting up of deferred accounts for workmen's compensation, insurance, property taxes, water, (if meters read on quarterly basis). These charges should be set up when rendered and be written off to overhead over the period to which they apply.

(3) Classification of overhead items.

Generally these expenses may be divided as follows:

Space expenses—Taxes or rent, building insurance.

Cubic space —Heating

Use —Power, water, light.

(4) Methods of distributing overhead expenses.

(a) Direct labour cost method.

This method of distributing overhead is based upon the theory that manufacturing expense is incurred proportionately to direct labour costs rather than labour hours. This method, although it is now quite common in small businesses has little in its favour save the ease of application. Most expenses are dependent on the lapse of time rather than on any other factor. If there is very little variation in rates of pay and no serious fluctuations in payrolls from month to month, this system may be used with a fair degree of satisfaction.

Example: Direct labour cost \$10,000.00

Overhead 8,000.00

Rate 80% or 80 cents on the direct labour dollar.

Sample Job #4387

Material \$10.00

Labour 25.00

Burden 80% of \$25 .. 20.00

\$55.00

(b) Direct labour hour method.

In this case the distribution of overhead is based on the number of direct labour hours worked on each job. It will be seen that this system uses a method of application similar to that by which overhead is built up, i.e., lapse of time. This method is most satisfactory where hand labour is the dominant factor in production.

Example:

Total direct labour hours for month ... 12,000

Total overhead for month \$6,000.00

Rate to be applied \$.50 per hour

Sample Job #4370

Material \$12.00

Labour—30 hours 30.00

Overhead 30 x .50c 15.00

\$57.00

(c) Machine hour method.

By this method the distribution of overhead is based upon the number of hours that machines are used. The cost of operating each machine is built up to include all charges for overhead: *space*—property taxes, building insurance; *cubic contents*—heat; *consumption*—power, light, water, estimated repairs, etc. Records are kept of the running time of each machine and the manufacturing expense is applied to the job according to the running time.

(d) It is often found that a combination of the machine hour and labour hour rate methods works out very satisfactorily. For example, an arrangement might be made whereby all machine costs were grouped to arrive at a machine hour rate while expenses such as supervision were distributed on the direct labour hours basis.

(e) Some businesses producing a single product occasionally use a unit basis of distributing cost, i.e., per article, per gallon, etc.

(5) Closing.

(6) Any questions?

"RELATIONSHIP" FOR INCOME TAX PURPOSES

Under the heading "Relationship Defined" the April issue of THE CANADIAN CHARTERED ACCOUNTANT quoted a recent regulation of the Income Tax Division. Subsequently the Division stated that it was not the intention to exclude brothers-in-law and sisters-in-law as dependent relatives within the meaning of rule 1(c) of section 1 of the 1st schedule to the *Income War Tax Act* and rule 3(c) of section 2 of the schedule. We are indebted to A. R. McMichael, chartered accountant, Toronto, for forwarding to us this subsequent advice.

TABLE OF EXCHANGE RATES

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	31st May 1943	15th June 1943
U.S. Dollars	10-11% P.	10-11% P
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indies—Dollars	9270	9270
India—Rupees	3356	3356
Hong Kong—Dollars	2781	2781
Straits Settlements—Dollars (Custodian rate)	5226	5226
Sweden—Kronor	2635	2635
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

